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BUSINESS STATISTICS - 1991

Operating revenue \$56.5 billion
Operating companies income \$9.9 billion
Cost of restructuring food operations \$455 million
Net earnings per share \$3.25
Market price of common share: high \$81 3/4, low \$48 1/4
Closing price of common share year-end: \$80 1/4

Contribution to PM total revenues and operating income:*

1991	Revenues (%)	Operating income (%)
Food	50%	30%
Tobacco	42%	65%
Beer	7%	3%
Capital Corp	1%	2%

* excluding KGF's Goodwill amortization of \$491 million and food restructuring of \$455 million

PM-USA: op. revenues \$11.6 billion, up 11.8% over prior year
op. cos income \$4.8 billion, up 14.3%
unit sales 220.7 billion (industry 509.3)
share of US market 43.3% (31.8% in 1981)

PM-Int'l: op. revenues \$12.2 billion, up 14.3%
op cos income \$1.7 billion, up 21.5%
unit sales 417.3 billion, up 13.4%
exports 106.6 billion units

N. America op revenues \$20.2 billion, up 0.9%
Food: op cos income \$2.0 billion, up 4.4%
Int'l Food: op revenues \$7.9 billion, up 31.4%
op cos income \$891 million, up 31.5%

Beer: op revenues \$ 4.0 billion, up 14.8%
op cos income \$301 million, up 5.6%
share of US market 22.5%

PM Capital Corp & Mission Viejo: op revenues \$384 million
op cos income \$178 million

GENERAL STATISTICS - 1991

Cost

Advertising	\$2.4 billion
Annual Meeting	\$919,835
Annual Report	\$3.00 per copy (print run of 1 million)
Corporate aircraft	\$32 million - 1992 operating budget (.31% of IFO)
Legal fees	\$107,672,162 worldwide outside counsel
Lobbying fees	\$4.5 on consultants and \$.3 million on professional services
R&D	\$396 million

Amount

Contributions, philanthropic	\$42 million + \$5 million for Matching Gifts
Contributions, political	Approximately \$1.7 million

Number

Corporate aircraft	15
Employees	166,000 worldwide
Board of Directors trips	3
Officers, women	20 (7% of overall domestic officers)
Officers, minority	24 (9% of " " " "
Executives I8+	19 women (7%), 24 minority (8.85%) of 271 total

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GF USA

GENERAL FOODS USA

Maxwell House

1. How did Maxwell House perform in 1991?
 - Profits up for third straight year
 - Slight decline in volume and share results due to aggressive competitive pricing
 - Excellent progress on productivity programs and significant improvement of brand product quality

2. Why did you close the Maxwell House plant in Hoboken?
 - Review of production facilities showed excessive manufacturing capacity
 - Total costs higher at Hoboken and likely to be higher in the future
 - Possible options for use of Hoboken site are under consideration

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3. Why aren't long-term employees of the company at Hoboken, who are over 50 years old, being given medical retiree benefits?

- Facility closed March 31
- We have come to an agreement on this issue with the two unions at the plant on the following:
- Employees with more than 25 years service, who turn 55 this year, will be given the opportunity to work until eligible for retirement. At that time they will get full retirement benefits
- People between 48 and 54 years old, with more than 20 years service, will be given an additional 18 months medical coverage

4. Maxwell House and Folgers had continuing disputes this year concerning competitive advertising. Do you expect this to continue?

- Probably, since consumer preference advertising is important in the coffee segment

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5. What are your views on the recent study at Stanford University showing that decaffeinated coffee raises cholesterol levels?
- Study is a seriously flawed paper with many internal contradictions, not resolved to date by the author. Criticisms of the study will be published in a forthcoming issue of the American Journal of Clinical Nutrition
 - A Johns Hopkins study, published in February 1992 in the New England Journal of Medicine showed no effect of decaffeinated coffee on cholesterol
 - Previously published studies inconclusive
6. What are your views on the recent study in Norway showing that heavy coffee consumption increases the risk of fatal heart disease?
- Study is at odds with the bulk of scientific research
 - Five major American studies have found no association between coffee consumption and heart disease. The Framingham study, the longest and best-controlled ongoing study, has shown, unequivocally, no relationship between coffee consumption and any form of heart disease

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7. What are your views on the recent finding by the International Agency for Research on Cancer that coffee causes bladder cancer?
- The most significant finding seemed to be that coffee is not a health threat
 - Studies provided only limited evidence of a possibility concerning the bladder. In fact, studies suggest that coffee may protect against cancer of the large bowel
 - All animal studies have been negative for a relationship between coffee-drinking and any form of cancer
 - We plan to request IARC to reconsider its classification of coffee
8. What is your position on the NCA (National Coffee Association) refusal to support the International Coffee Agreement?
- The NCA does not oppose an ICA
 - See page 13 for more detailed explanation of this matter -
9. Does Maxwell House use any tropical oils?
- No
10. Do you see any synergies from the acquisition of Jacobs coffee business in Europe?
- A worldwide coffee council formed to develop synergies
 - Research efforts are integrated

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11. What new products has Maxwell House Coffee Company introduced recently?

- Maxwell House Lite Coffee
- General Foods International Coffee French Vanilla Cafe
- Maxwell House Cappuccino
- All of these products are doing well

12. Do you intend to introduce a liquid coffee?

- Currently testing Cappio® iced cappuccino, a cold refreshment coffee beverage, in Arizona

13. Has Maxwell House reduced the amount of coffee in their products?

- We have not changed the net weight of any of our products during 1991.

Gevalia Kaffe

NOTE: Gevalia Kaffe is a confidential development business. It is super-premium ground and whole bean coffee (\$10.00/lb.) imported from Sweden and delivered to subscriber homes through the mail. We try hard not to separate ourselves from our camouflage because our basic appeal lies in being "exclusive" with customized product quality and service. Subscribers generally do not know we are part of the General Foods or Philip Morris companies. Our competitors are not aware of our size (\$75 million in 1991)

1. If asked a direct question about Gevalia:

- Gevalia Kaffe is a superb European product of extremely high quality and rather costly to make and bring to the U.S. We are presently experimenting with ways to make this special coffee available to American consumers. Currently, it is generally available only through a small, direct mail coffee service

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GF Bakery Companies, Inc.

1. Have the bakery businesses met expectations since you entered the industry?
 - Volume growth vs 1990 is 6.7%
 - 1991 operating revenue \$1.1 billion. Planning to expand to additional markets in 1992
 - Share of total Entenmann's cake volume is 15% to 35% depending on geography
2. You introduced Entenmann's Fat-Free in 1990. How is it doing?
 - Generated over \$140 million in revenues in 1991

Desserts Division

1. What new products are being introduced by Desserts?
 - Jell-O Gelatin Snacks, Refrigerated Ready-to-Eat Gelatin expanded to West Coast and performing well
 - Jell-O Fruit-Topped Cheesecake expanded nationally, significant growth of volume and share
 - Jell-O Free Pudding Snacks, which are Fat Free and Cholesterol Free, currently being expanded nationally
 - Berry Blue Jell-O Gelatin to be introduced nationally in April

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2. What is the state of Desserts business?
 - Desserts is on track to increase earnings this year significantly
 - Earnings growth expected from all segments of the business
3. What is the long-term outlook for the business given current concerns with high calorie foods?
 - Desserts outlook is very good especially for growth on Refrigerated Ready-to-Eat. Even in full-calorie forms, puddings and gelatin are among the lowest-calorie desserts
 - Sugar-Free Jell-O experiencing significant growth due to new advertising and marketing strategies
 - Remainder of business capable of growth, as demonstrated by positive impact of Jell-O Jigglers and Fruit-Topped Cheesecake.
4. Why have you been out of compliance with Massachusetts Water Resource Authority FOG (fats, oils & grease) regulations for three years?
 - Plant has been operating in Woburn since the 1920s, but our wastewater discharge did not become an issue until 1989 when the MWRA abruptly changed its permitted level of fats for wastewater.
 - This entails significant process changes and new waste management technologies
 - So far, we have spent some \$3 million and reduced our waste by more than 50 percent. We will be implementing technology to achieve further reductions over the next 12 months.

Post Cereals

1. What is the current state of the business? What do you see for the future?
 - Good year in 1990. Continued to grow in 1991
 - Share of market grew from 11.2% in 1990 to 11.5% in 1991
Exit position in December quarter was .2pp above December quarter 1990 (11.6% vs 11.4%)
 - Earnings continued to grow, reaching historic high in 1991

2. What is the effect of the recession on the cereal business?
 - Ready-To-Eat Cereal market has grown consistently over past 30 years, averaging 3.5% per year from 1960 to 1990. Growth has continued despite recessionary periods
 - In 1991, market grew by 2.9% versus 1990 and market continues to show positive growth, +4%, during the first two months of 1992
 - Within the RTE cereal market, Private Label cereals have gained share of market in this recessionary environment. Despite this, POST Cereals have gained share of market. POST's 1991 share of market was 11.5%, +.3pp vs 1990 and +.8pp vs. 1989

3. How is the Post Cereal business relative to major competition?

- Share of market grew by .3pp (from 11.2% in 1990 to 11.5% in 1991)
- Exit position in December quarter was .2pp above December quarter of 1990 (11.6% vs 11.4%)

<u>Company</u>	<u>1991 Share</u>	<u>Percentage Increase</u>
Post	11.5	+ .3
Kellogg	37.1	+ .1
General Mills	24.5	+ .6
Quaker	7.4	- .3
Ralston	4.9	-1.1
Nabisco	3.1	-1.1
Private label	8.1	+1.6
Other	3.2	- .1

4. Is Post planning to introduce new products?

- New products are an important source of volume growth in the ready-to-eat cereal category
- Thirteen new products introduced by the industry in each of 1990 and 1991. This level should continue or even increase slightly
- Post has introduced three new products since 1989 -- Honey Bunches of Oats, Marshmallow Alpha-Bits and Dino Pebbles
- Great Grains introduced into limited distribution in 1990. Performed well in test and going into national distribution in 1992

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Foodservice

How did the Foodservice unit perform in 1991? What are its prospects for 1992?

- 1991 was a difficult year. Softness in the Food-Away-From -Home market resulted in modest declines in both volumes and revenues from 1990. Income from operations, however, increased slightly vs. year ago
- Modest recovery in the Food-Away-From-Home market will be necessary to achieve planned growth in volumes and earnings in 1992
- Key strengths are our significant branded franchises, e.g. CRYSTAL LIGHT® powdered soft drinks, MAXWELL HOUSE® coffees and JELL-O® desserts
- Kraft Foodservice distributes a small percentage of GF USA Foodservice's products

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Dinners and Enhancers

1. What products comprise this unit?
 - Dinners products are MINUTE® rice and STOVE TOP® stuffing.
 - Enhancers products are LOG CABIN® syrup, GOOD SEASONS® salad dressing mix and SHAKE 'N BAKE® coating mix.
2. Why did the Corporation discontinue the line of shelf-stable products?
 - Kraft Microwave Entrees did not meet long-term criteria.
 - Customer resistance to shelf-stable meals
 - (Prior GF product was called Culinova)

Beverage Division

1. What has been the performance of this unit?
 - Outstanding performance for fifth consecutive year
 - Market share for powdered soft drinks in 70-80% range
 - Market share for ready-to-drink was in 15-20% range in 1991, and with acquisition of Capri Sun in 20-30% range
 - IFO increase from 1990 to 1991 17.7%
 - Operating revenue increase from 1990 to 1991 12.8%

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2. What is the Company's position on the banning of aseptic packaging on the basis of non-recyclability?
 - Only one state has banned the aseptic box (Maine)
 - During 1991, no other states were successful in enacting legislative bans on packaging.
 - In Maine we introduced an acceptable ready-to-drink package, Kool Aid® Kool Bursts® soft drinks, in a single layer plastic bottle
3. How is the Kool Aid® Kool Bursts® soft drink product selling?
 - Very well. Product currently available in 25% of the U.S. markets
 - Completion and start-up of manufacturing facility in Winchester, Va will support plans for national distribution by September 1992
4. What are the plans for the newly-acquired Capri Sun business?
 - Capri Sun business will be fully integrated into the Beverage Division by mid-year
5. How do you justify the litigation involving TANG and TING?
 - Litigation of this sort is necessary to preserve the integrity and strength of well-known brands, such as TANG® fruit-flavored beverages
 - Small businesses often attempt to trade on the goodwill of well-established brands
 - It is very important to enjoin the use of marks, such as TING, that are confusingly similar to our marks

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6. Why all the concern over the International Coffee Agreement (ICA)?

- The first International Coffee Organization (ICO) Treaty was signed in the 1960's and was an attempt to provide reasonable returns to producing nations while insuring high quality.
- The fourth agreement was signed in 1983; in 1989, the ICO treaty economic provisions were rejected by a majority of member nations, eliminating sanctions for members' failure to adhere to pricing provisions.
- This has resulted in unrestricted trading, which tends to favor more developed member nations and results in trade imbalances and deficits among lesser developed countries (e.g., diminished commerce between developed and less developed nations).
- National Coffee Association (NCA) has advised U. S. Government that it (NCA) favors unrestricted trading in coffee.
- However, NCA (and KGF) would not oppose an ICA which corrected two major problems:
 - a) Sale of coffee to non-member countries at prices substantially below prices to members;
 - b) Current quota system which makes high quality coffees available only to high consumption nations and not to the marketplace.

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KRAFT USA

KRAFT USA

Retail Cheese Division

1. Why did Kraft reduce prices on some of its key cheese brands during 1991?
 - To reduce price gaps vs. Private Label. In 1991, Private Label gained market share (+2.8 pts. to 31.6%) while Kraft's share declined (-3.0 pts. to 43.9%)
2. Do we expect cheese costs to fall dramatically? What is our long-term outlook?
 - Impossible to predict accurately the supply and demand due to uncertainty connected with key market variables (weather, dairy herd size etc.)
 - Also depends on impact and level of government cheese purchases for domestic and foreign programs
3. Can we expect additional price declines from Kraft?
 - Not necessarily. Pricing decisions are made on a category-by-category basis because of differing cost structures and competitive situations
4. How did the cheese industry do in 1991?
 - Overall, total retail cheese declined 1.4% in 1991 vs. 1990, due to (a) the recession, (b) continued consumer concerns about fat and cholesterol, (c) resumption of government giveaway program (36 MM lbs. of giveaway in 1991 vs 0 pounds in 1990)
 - Over the long term, consumer demand for cheese should remain steady
 - Ethnic dishes that use cheese (pizza, pasta, Mexican dishes) continue to gain in popularity

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5. How did Kraft's cheese business compare to the industry?

- Kraft's composite share declined 3.0 share points in 1991. But we continue to hold the leading share, closing the year with 43.9% market share
- All of our key business segments declined in share. Processed Slices - 2.4 pts.; Process Loaf - 6.0 pts.; Grated Cheese - 1.8 pts. ; Cream Cheese - 0.9 pts.; and Natural Cheese - 3.2 pts.
- Our decline in share was due to widening price gaps vs. Private Label. We also implemented several price declines, the latest an 8% decline in December on Process Slices and Natural Cheese
- Share declines partially offset by new product introductions and innovative packaging improvements.
 - (a) Kraft Singles introduced Light and Free versions, redesigned packaging graphics, "Singles Saver" packaging promotion.
 - (b) Velveeta Light nationally introduced
 - (c) Kraft brand Natural Cheese introduced new reclosable shreds package and several new flavors
 - (d) Cracker Barrel introduced several new items
 - (e) Philly Free Cream Cheese introduced into test market

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6. Please comment on the 1991 performance of Kraft's major Cheese Brands.
- Our major brands (Velveeta, Kraft Singles, Kraft 100% Naturals and Philadelphia Brand) account for over two thirds of the Retail Cheese Division's volume
 - Kraft Singles volume declined (-5.3%), Velveeta volume declined (-9.6%), 100% Natural declined (-10.2%). Conversely, Philadelphia Cream Cheese grew +1.7% over 1990
 - Price declines have been implemented on major brands
7. Who are Kraft's major Cheese competitors? How are they performing versus Kraft today? In the future?
- Our major competitors are Private Label, Borden, County Line, and Sargento
 - Private Label gained market share (+2.8 share pts.). 1991 shares were: Borden 3.7% ; Sargento 3.4%; County Line 1.4%
 - The branded competitors are very aggressive in their long-standing geographic strongholds, where they deal heavily to obtain trade support
 - None of them compete equally with us on a national basis due to our national advertising, plus strong trial and repeat purchase of our products

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8. Does Kraft have a monopoly of the U.S. Cheese market?

- No. Kraft is the leading manufacturer of cheese but the industry is highly competitive. Its prices to consumers are determined by the forces of supply and demand
- Kraft uses less than 20% of the total (over 6 billion lbs.) cheese produced for the U.S. cheese market
- The majority of Kraft's cheese sales are made in packaged form through grocery stores. Kraft's share of retail segment is about 44%
- We compete very vigorously with large national companies (Borden and ConAgra), strong regional firms (Sargento, Alpine Lace), large co-ops (Land O'Lakes) and strong Private Label brands

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9. Has Kraft been successful in new cheese products in the last year? Which products? What types of new cheese products will Kraft pursue in the future?
- Yes
 - Kraft Light Singles and Kraft Free Singles are now both in national distribution. Kraft is now the leader of the "Better-for-you" health segment (up +20% in 1991 vs. prior year), with a 61% share (up from 27% just 2 years ago)
 - In 1991, introduced a variety of line extensions under the Cracker Barrel brand name. Expanded Cracker Barrel Light nationally in July. It achieved a 20% share of the Light Natural Cheese segment
 - Launched 8 oz. Shredded Cheese into Cracker Barrel's two strongest regions (East and Southeast) and introduced four new flavors of Cracker Barrel nationally--Monterey Jack, Provolone, Jack with Peppers, New York Aged Reserve
 - Launched Velveeta Light nationally in March 1991. It has exceeded our expectations, generating a 12% share of the Process Loaf category and 20 MM pounds of annual volume
 - Introduced our first Fat Free Cream Cheese product, Philly Free, into test markets (Portland, Seattle and Denver). After five months in test, Philly Free has met goals for share and trial. Plan to expand this product in 1992

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10. What is Kraft's view of Unilever entering the cheese business in the U.S. with Shedd's Cold Pack Cheese?

- Only Kraft has a nationally recognized name and reputation across a broad line of cheese products. We will continue to ferociously defend our strong cheese equities, regardless of who enters the cheese business

11. What is Kraft's view of analog cheese products?

- Kraft was first to enter the market with an analog cheese product called Golden Image in 1976. We now market Golden Image and Lunch Wagon analog slices on regional basis
- Analog products grew significantly with the entry of other competitors in the early 1980's (Borden's and Fisher Sandwich Mate). Analogs peaked at a 12% share and are today only 2% of the Process Slices market
- While analogs are priced favorably (50% lower than Process Cheese), they don't always meet customer tastes. We have no plans to expand the market

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12. What is Kraft doing about addressing "healthy" issues relating to Dairy products, particularly fat and cholesterol?

- We are aggressively marketing a number of "Light" cheeses:

Kraft Light Naturals, a reduced fat, lower in cholesterol, Natural Cheese.

Market leader in Light Cheese with over 50% share

Philly Light, a lower calorie and lower fat version of Philly Cream Cheese.

Market leader in its segment (with an 87% share), and has a 17% share of total Cream Cheese

Cracker Barrel Light, a reduced fat, lower in cholesterol version of Cracker Barrel Sharp Cheddar, expanded nationally in July, 1991

Kraft Light Singles, introduced in July 1990, have been very successful.

They have 1/3 less fat and are lower in cholesterol than Kraft Singles, but taste just as good. Currently outselling Borden Lite Line by more than 2 to 1

Kraft Free Singles, expanded nationally November 1991, has done exceptionally well, maintaining a 4.0%+ share of process cheese slices

Velveeta Light, introduced nationally in March 1991, is achieving a 12% share of Process Loaf and generating 20MM pounds of volume. Has 1/3 less fat than regular Velveeta, is low in cholesterol, and tastes as good as regular Velveeta

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13. What efforts will Kraft be making with Fat Free Cheese products?

- Expansion of Kraft Free Singles has been very favorable, with the product achieving broad distribution quickly and maintaining a 4%+ share of process cheese slices
- We launched our first Fat Free Cream Cheese product, Philly Free, into live test markets (Portland, Seattle, Denver) in September, 1991. It has achieved a 9% share of the Cream Cheese category, and we plan to expand Philly Free in 1992

14. Is Kraft worried about cholesterol in its cheese products?

- We continue to believe a healthy diet ought to include variety, balance and moderation. Dairy products, including cheese, are excellent sources of many nutrients, including calcium, protein and vitamin A. While dairy products contain both fat and cholesterol, eating them as part of a balanced diet remains a good practice for the vast majority of consumers
- To date, we market several lines of cheese products that are reduced in fat and cholesterol

15. Do artificial foods like Velveeta hurt the sale of our other products?

- The texture and flavor of these products meet unique consumer needs and have generated sizeable businesses for Kraft

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16. What is Kraft doing to defend its space in the dairy case from competitive products?

- High quality, superior advertised brands encourage retailers to give us shelf space
- We use our "Refrigerated Experts" program, DPP (Direct Product Profit) and "Space Kraft" analytical tools to illustrate our sales and profit advantages to retailers

17. What are Kraft's plans for reclosable packaging in the future?

- Introduced new reclosable package on Kraft Natural Shredded Cheese. The package contains a horizontal zipper on the top for easy opening and closing (competitive packages contain a less convenient vertical zipper)
- Expanding this innovative zipper package regionally and will be in full national distribution by September, 1992
- Developed reusable container of our Singles product ("Singles Saver") featured in a national promotion
- We will launch a Velveeta Saver, patterned after our successful Singles Saver, in July, 1992

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18. Why is Kraft General Foods supporting the Olympics?

- Enhances the image of the Kraft Brand
- Drives the business through a combination of advertising, consumer promotions, event marketing and public relations
- Strengthens our customer partnerships, by providing the trade with a marketing tool that will build traffic in grocery stores while also setting us apart from our competitors
- Builds employee morale within KGF through our support of the Olympic cause

19. How is KGF supporting the Olympics?

- Supporting the U.S. Olympic team by providing food and financial support to U.S. Olympic Committee. Support focused on the training centers in Colorado Springs, Lake Placid and San Diego
- Consumer communication for the sponsorship includes both television and print advertising, as well as a complete array of promotion events, including a "U.S. Olympic Training Table Cookbook."
- In addition, Maxwell House Coffee and Oscar Mayer are also team sponsors. Maxwell House, in particular, is continuing its sponsorship of the Maxwell House Spirit Award as a tribute to the competitive spirit exhibited by U.S. Olympians

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20. What is BST?

- BST (Bovine Somatotropin) is a natural hormone in cows necessary for growth and milk production. It is now possible to reproduce BST through biotechnology

21. Is BST approved by the FDA?

- BST (sometimes called BGH) is currently under review by the FDA. Until approved, KGF is not accepting milk or milk products from BST-supplemented herds. Regulatory agencies in over 20 countries, including Canada, Britain, France and Germany have authorized BST as safe for human consumption

22. Is anyone opposed to BST?

- Yes. Some dairy farmers are afraid it will lower milk prices. Others are against products made through biotechnology

23. Can BST make people grow?

- No. BST only works on cows and some other animals, never on people. BST is a protein hormone, and is not dangerous

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Grocery Products Division

Viscous

1. How is the business doing?

- 1991 a mixed year for Viscous
 - Total category declined (4.8%)
 - Salad Dressing segment off (7.8%)
 - Mayonnaise segment off (3.3%)
- Both Miracle Whip and Kraft Mayonnaise gained share of segment
 - Miracle Whip share of Salad Dressing +0.5 pts. to 90.4%
 - Kraft share of Mayonnaise +0.1 pts. to 21.4%
- Total Kraft Viscous share declined 0.5 pts to 44.3%

2. How are Kraft's Free Viscous products doing?

- Overall Free Viscous products are on track
 - Miracle Whip Free achieved 2.4% share of Viscous and 7.2% share of Salad Dressing
 - Kraft Free Mayonnaise achieved 2.3% share of Viscous and 3.4% share of mayonnaise
 - Trial and repeat proceeding on plan; but increase in volume due mostly to switch from light products

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3. How are Kraft Mayonnaise and Miracle Whip priced compared to Hellmann's?

- Regular and Light Parity priced to Hellmann's
- Free products priced about 8% above regulars reflecting higher cost

Dinners

4. How is the business doing?

- Dinners continue as large, profitable, high potential business
- 1991 Total Kraft share -1.3 pts. to 64.8% vs 1990 position
- Shares up on Velveeta Shells and Cheese, +0.5 pts. to 13.8% vs. 1990 position
- Share down on Blue Box (-1.3 pts. to 40.9% vs. 1990 position)
- Strong advertising, special pack promotions, new products, and targeted marketing in place

5. How are the new Shapes doing?

- Shapes play key role in price/value battle with private label
- Exceeded all goals in 1991
 - (a) Volume +42% vs. 1990 and 2MM lbs. over plan
 - (b) Total Shapes share at 6.2%, up +1.4 pts. vs. 1990 position
- Kraft Shapes share larger than Golden Grain, only national branded competitor

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6. How are Velveeta Bits O'Bacon and Touch O'Mexico Dinners doing?

- Bits O'Bacon and Touch O'Mexico achieved 1.1 and 0.9 shares respectively in 1991
- BOB and TOM key contributors to 1991 +0.5 pt. share gain to 13.8%

7. How are Versatile Side Dishes doing?

- Significant profit improvement in 1991 (+\$7.7MM)
- Pasta Salad share grew +3.2 pts. to 52.4% in 1991
- Viability of hot VSD's (Pasta, Potatoes, Rice) being reassessed

Pourables

8. How is the business doing?

- Profits up significantly but 1991 was generally poor
- Category decline due to higher lettuce pricing vs. 1990. Anticipate turnaround in 1991 with favorable lettuce prices

9. How is the Kraft Free line doing?

- Free continues strong performance achieving 10.5% share of Total Pourables. Volume up 30%
- Expect strong growth in 1992 with launch of Free Peppercom Ranch

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10. How is Seven Seas Free doing?

- Year 1 results are on track with 1.6% share, but at expense of Light

11. How can Kraft Free Pourables have oil and still be fat free?

- Reformulated and oil is no longer an ingredient
- Already meets proposed NLEA (FDA) guidelines for fat free, in effect from May 1993

12. How has Kraft Free done vs. Clorox's Take Heart?

- 10.5% share vs. Clorox's 3.0% share of total pourables in 1991

Margarine

13. How is our Margarine business doing?

- Share down -1.7 pts., to 17.0%, profits down -8%, due to increased competitive activity in last half of 1991

14. What is the competitive situation in the Margarine category?

- Category divided in two components: margarine 52%, spreads 48%
- Parkay largest brand in margarine segment: 18.8% share of margarine
- Shedd's largest brand in spread segment: 29.0% share of spreads
- New product activity in 1991 increased in spread segment: Shedd's Churn Style Spread; I Can't Believe It's Not Butter Light; Blue Bonnet Light; Land O'Lakes with Sweet Cream; Parkay Light; KTOB Squeeze

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15. What is status of Kraft Touch of Butter and Parkay Gold?

- Kraft Touch of Butter exceeded all goals since 1990 expansion with 3.2 share
- Still evaluating results of current distribution of Parkay Gold in Great Lakes Region and selected districts in Central and Southwest

BBQ

16. How is Kraft BBQ doing?

- 1991 Total Kraft share -0.3 pt to 44.5% This is leading share position
- Bull's-Eye strengthening premium segment leadership with share up +.6 pt. to 10.1%. Growth continuing with volume up +8% and share up +.6 pt. to 10.1%
- BBQ category soft the first half of 1991 due to high meat prices

17. How is the competition faring and how is Kraft responding to competitive threats?

- Hunt's leading share gainer in 1991
- Defense plan to be implemented to fight Hunt's downsizing (18 to 15 ozs.)
- KC Masterpiece share down. Heinz and Open Pit basically flat shares
- Lea & Perrins expanding premium BBQ sauce to Northern California; Bull's-Eye will defend ferociously

2022852684

Specialty Products Division

Chilled Foods

1. What is the status of Kraft's Chillery Line of fresh/refrigerated foods? What are the future plans for this Line?
 - Kraft terminated test marketing of KRAFT FRESH CREATIONS (previously Kraft Chillery) April 1991
 - Consumer acceptance of Kraft Fresh Creations was good, but projected volumes did not justify the significant investment to expand the business
 - Current chilled food efforts are being focused on DI GIORNO® refrigerated pastas and sauces

2. What is the status of competitive fresh prepared foods?
 - No branded manufacturers testing the category at this time
 - FRESHNES from Nestle, a line of prepared entrees and salads had been in test in Cleveland/Columbus since 1988. Terminated 1991
 - FRESH KITCHENS from Campbell Soup, a line of prepared entrees, soups and desserts, terminated first quarter 1990. Tested only a few months in limited stores in Philadelphia

2022852685

3. How is your DI GIORNO® line performing in the market?
- Quite well. Following a successful test market, brand expanded regionally in 1991 and expanded into the West February 1992, achieving full national distribution
 - Exceeding volume goals. The sell-in the West Region a significant success with 95+% authorization
4. Refrigerated pasta and sauce is more expensive than dry past and jarred sauce. Why will the consumer be willing to pay a premium price for refrigerated pasta and sauce?
- Rapid growth of refrigerated category indicates consumers willing to pay premium price. Category has grown from \$30 mm in retail sales in 1987 to almost \$250 mm in 1991
 - Dramatic growth due to:
 - (a) fresher taste/higher quality
 - (b) convenience in reduced cooking time
 - (c) greater variety
5. Why has the trade been willing to accept a second national brand of refrigerated pasta and sauce if Contadina is already doing well?
- DI GIORNO® entry behind an aggressive marketing plan has greatly accelerated category growth from 2% to 44% (sauce) and from 8% to 22% (pasta)

2022852686

6. What makes DI GIORNO® products different from those of Contadina?
 - Cholesterol-free vs. 75mg cholesterol in Contadina
 - Similar taste but lower price
 - Greater choice and microwaving convenience. Longer shelf life
7. What does the name DI GIORNO® communicate to the customer?
 - A contemporary Italian image with small company origins. Freely translated, DI GIORNO® means "of the day" in Italian
8. Why did DI GIORNO® remove "fresh" from its label?
 - To comply with an FDA position on use of the word "fresh"
 - Contadina has responded similarly and has removed "fresh" from pasta and their pizza product, and will soon remove it from sauce
9. How will refrigerated pasta and sauces be labeled?
 - Short term, the DI GIORNO® name with no reference to fresh
 - Longer term still to be determined. The FDA has invited comments on use of the term "freshly prepared" for extended shelf life refrigerated foods
 - The Chilled Foods Association (of which KGF is a member) is submitting comments to the FDA in support of the use of the term "Freshly Prepared"

2022852687

10. Are there synergies between your Italian Fini company and DI GIORNO®?
- Yes. Very detailed technology exchanges
11. Has the FDA's increased scrutiny in the whole "fresh" area hurt the category?
- Does not appear to have affected the category. Target consumers recognize the advantages of refrigerated pasta and sauces vs. dry/jarred competition
12. Will DI GIORNO® introduce a pizza kit like Contadina?
- Probably not. We continue to aggressively market our highly successful BOBOLI Italian Bread Shell (part of Entenmann's unit) which we think is a better value to consumers

Pollio

13. How did Pollio perform in 1991?
- Exceeded expectations. IFO up +54%
14. What are Kraft's plans for Pollio in the future?
- Continue to grow in core areas (e.g. New York Metro)
 - Continue to exploit Fat Free technology (introduced in 1991)
 - Expansion into new businesses which leverage Polly-O trademark, e.g. deli cheese, snack cheese

2022852688

15. How are Pollio's new fat free mozzarella and ricotta products doing?

- Slightly below expectation
- Now account for 6% of Pollio's ricotta and mozzarella volumes

16. How are Pollio's grated cheeses doing?

- On plan. Have become a small, but profitable business

Churny

17. How did Churny perform in 1991?

- Performance in 1991 was good. Volume +6%, IFO up +41%. 1991 was the first full year of Anco* acquisition and we have successfully integrated the business. Churny now has a significant presence in imported cheese.

* Anco imports and distributes specialty cheeses in the Northeast

18. What trends do you see in the Specialty Cheese area? What is Kraft doing to take advantage of the specialty cheese area?

- Specialty Cheese market continue to grow +1% per year
- Churny company is spearheading KGF Specialty Cheese efforts
- We are selectively investing in highest growth areas to establish brand equities - e.g. Feta, Rondele, Fresh Italian cheeses

2022852689

19. Why don't we see more Kraft cheese products in the service deli and cheese tables?

- Kraft's Churny is the leading deli cheese company. However, products sold and marketed under many trademarks due to the fragmented nature of the business - Churny, Rondele, Athenos, Hoffman and Maybud plus many important specialty items
- Churny has about \$150 mm of retail sales in the grocery deli and cheese tables segments

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2022852691

KGF INT'L

2022852692

KGF INT'L

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KGF INT'L

KG INT'L

2022852694

KRAFT GENERAL FOODS INTERNATIONAL

1. What is the status of the combination of the General Foods and Kraft International businesses? Have you achieved major synergies?
 - Completed managerial and structural combination of GF and Kraft International in 1989
 - Acquisition of Jacobs Suchard in 1990 added a very successful organization
 - Excellent synergistic achievements

2. Tell us more about your acquisitions
 - We intend to continue our aggressive acquisition pace
 - Acquired Finì SpA, an Italian premium meat and fresh pasta business, (1989)
 - Acquired remaining equity in several of our international joint ventures, resulting in 100% ownership of Butlands in New Zealand (1990), Saimaza S.A. in Spain (1989), Scandinavisk Kaffekompagni in Denmark (1989) and Simmenthal in Italy (1989)
 - Acquired controlling interest in Negroni, an Italian processed meat business (1990), Splendid Italian coffee business from Procter and Gamble (1991), Industrial Quesera Menorquina cheese company in Spain (1991)

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3. Are you planning to enter the Eastern European markets and Russia?
 - We continue to watch for attractive opportunities in Eastern Europe.
Each of those countries is different in terms of its business development.
 - Jacobs Suchard recently entered a joint venture in Hungary with BEV, a major coffee and confectionery company
4. What is the status of KGF business in the Middle East?
 - Involved in licensing and export activities. We also purchase certain commodities from countries in this region
5. What about Israel? Do you avoid business in that country due to fear of Arab boycotts?
 - No, we do not avoid doing business in any country. We select all business opportunities on the basis of their merits
6. What steps is KGFI taking regarding productivity?
 - High priority to integration of certain Kraft and General Foods businesses with Jacobs Suchard
 - KGFI has a formal productivity process in place

2022852696

7. Does this productivity activity hurt product quality?
 - If quality/productivity objectives conflict, product quality is always the winner
 - Improving product quality often improves productivity
8. Does KGF intend to pursue a strategy of "global branding" or "global marketing?"
 - Yes. By extending our trademarks across the world as we recognize that our brands are one of our strongest assets. For example, Philadelphia cream cheese is marketed in fourteen countries, etc.
9. How will Europe post-EC 1992 affect KGF's European businesses?
 - We look on Europe post-EC 1992 as an opportunity for KGFI, presenting enhanced regional economic growth, reduced product cost and simplified product transfer
 - KGFI was one of the first European companies to adopt a regional manufacturing approach

2022852697

10. What is KGF's status in Asia Pacific?

- KGF is the largest U.S. food company in Asia Pacific
- We have sizable joint ventures in Japan and Korea, a major subsidiary in Australia, a smaller company in New Zealand, and a KGFI subsidiary in the Philippines
- We have licensing operations in Japan and Indonesia and two small joint ventures in the PRC (Note: Dongmei position now being sold to Chinese partner)

11. How does coffee fit in the scheme of KGF International businesses?

- We have the largest coffee business in Europe with the acquisition of Jacobs Suchard

12. Have KGF International operations encountered any instances of product tampering?

- No serious incidents of product tampering in our international businesses
- We continue to improve tamper-evident packaging, which is the best precaution

2022852698

13. Did KGFI recall any of its products in 1991 due to quality defects?
 - In the U.K., Fat Free Thousand Island Dressing recalled down to the consumer level, due to yeast formation over time in the dressing jars, Recall successfully completed, no consumer injuries verified
 - Limited trade withdrawals of Jacobs Suchard confectionery pralines, due to appearance associated with formulation changes and heat damage
14. A Scandinavian study recently linked coffee consumption with coronary heart disease risk. What is KGFI's position on this issue?
 - Results of the Norwegian study (Stensvoled et al., British Medical Journal) conflict with those found in the largest and longest study of U.S. consumers, the Framingham Heart Study, which found no relationship between coffee intake and cardiovascular disease
15. Are there any potential synergies with U.S. businesses, as well as those for KGFI's current European business?
 - Principal synergies identified relate to KGFI coffee businesses in Europe
 - Our HOLLYWOOD chewing gum business in France has been integrated into the Jacobs Suchard organization
16. Has environmental regulation in Europe affected KGFI?
 - Our plants and production methods are not intrinsically harmful to the environment
 - Reviewing development in packaging to reduce the amount of waste

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2022852700

KGf CANADA

KGF CANADA

1. How did the Canadian business do in 1991?

- 1991 volume (MM lbs) 734.3 (+1.8 % vs 1990). Two percent growth in retail and foodservice
- IFO: US \$MM 246.1 (+5% vs 1990). Growth of 5%
- Major contributors were Cereals, Dinners, Margarine and Foodservice, although Foodservice earnings fell slightly due to severe industry recession

2. How has the consolidation of retail trade base in Canada affected us?

- Trade consolidation a factor in Canada for over a decade
- Seven retail customers do over 70% of all food business, a much more concentrated environment than in the US
- Supply and distribution fully integrated, with consolidated ordering and shipping
- Retail sales force merged into single organization. Coffee sales force integrated into existing grocery sales force January 1992

3. How are you meeting the private label challenge?

- Continue to add value for consumers - quality, new varieties, convenience, nutritional benefits
- Having leading brands in most categories ensures good presence on store shelves

2022852701

4. What is Canada doing in the area of new products?
 - 1992 Initiatives are Kraft Light Naturals, Kraft Free Singles, Cheesy Tomato Dinner, Kraft Reclosable Shreds, Blueberry Fruit & Fibre
 - Completing national expansion of 1990/91 initiatives (Honey Bunches of Oats, Marshmallow Alpha-Bits, Maxwell House Filter Packets, Minute Instant Brown Rice, Kraft-Free Pourables, Snackeroos Cheese Snacks, Parkay Gold Margarine, Boboli)
 - Continue strategy of bringing proven successes from the U.S. or abroad to Canada

5. Does KGF plan to separate out food service operation in Canada as in the US?
 - No. Canada's two foodservice organizations are closely integrated to their retail business capabilities

6. What major productivity programs are being implemented in Canada?
 - Productivity savings planned at \$26MM. Major projects are:
 - 1) Sales integration into one retail sales force
 - 2) Ultra filtration of Cream Cheese products
 - 3) Manufacturing efficiencies

2022852702

7. How does the KGF restructuring provision announced in 1991 affect Canada?

- Total overhead costs will be down 1.3% vs 1990
- Key activities are:
 - 1) Combine two retail sales forces to one
 - 2) Consolidate R&D into US centers of expertise for N.America
 - 3) Consolidate western Canadian sales accounting centers to align with retail customers

8. What is the effect of the Free Trade Agreement?

- Tariff barriers reduced but non-tariff barriers (e.g. labeling, ingredients) remain
- FTA applies across most of our businesses, except dairy products where cheese import quotas remain in effect
- Ensuring cost competitiveness between Canada and products sourced from the USA is key as tariffs come down

9. Will a Mexico Free Trade Agreement affect the Canadian business?

- Only nominal effects, visible in long term
- Savings from lower Mexican labor costs more than offset by cost of transportation

2022852703

10. How will Canada's cheese business be affected if GATT agrees to lift restrictions on import of dairy products in favor of increased tariffs?
- No impact on KGF
 - GATT would initially require increased tariffs, market would remain stable
11. Do you see business risks due to Quebec separatism?
- No restrictions expected on supply to and sales of the two KGF locations in the Province
 - October referendum may or may not accept new Constitution

2022852704

12. Why is KGF Canada permitting the very attractively priced lease for its current office space in Montreal to expire this year in favor of a far more expensive lease (Cdn.\$200,000 more per year) for comparable square footage in another location?

[NOTE: The owners of the current space claim to own 275,000 shares of PM stock and have suggested that they may try to "leverage" this holding to force KGF Canada to rescind its decision.]

- We acknowledge that the proposed new lease will be slightly more costly. However, cost is only one of several factors considered in making this decision. The new facility provides KGF employees a far superior working environment.
- Air quality was a persistent irritant in the old office space. The new facility eliminates this problem.
- In the end, we think the decision will result in a more efficient work force and hence enhances shareholder value.

2022852705

KGF FROZEN
PRODUCTS

2022852706

KRAFT GENERAL FOODS FROZEN PRODUCTS

1. Did the individual units within the Frozen Products Group meet their financial goals in 1991? Outlook for 1992?
 - Solid volume and revenue growth in all units
 - Overall FPG profits up 3% vs. year ago
 - IFO up significantly at Lender's (26%) and NDPC (20%)
 - IFO down 18% at Tombstone - accelerated expansion costs
 - IFO down at AAGC/BE (All American Gourmet Co/Birds Eye) due to fierce competitive environment
 - Strong profit improvement projected by FPG for 1992

2. Have you achieved any synergies with the consolidation of the Frozen companies?
 - Distribution system consolidated. Distribution points reduced from 40 to 7. Will produce \$5.7 million saving
 - Centralized management and administration of group-wide transportation/distribution activities, operating efficiencies optimized
 - Joint DSD (Direct Store Distribution) distribution of ice cream and pizza in selected markets
 - Joint sales and marketing efforts

2022852707

3. How have FPG's new products done?

- Eating Right a disappointment, being phased out
- Hot Lunch and Quick Stirrs below expectations
- Encouraging results in NDPC's (National Dairy Products Corp.) new health-oriented products
- Strong performance of "Special Order" pizza

All American Gourmet

4. Is the AAGC acquisition meeting expectations?

- AAGC's performance below expectation owing to fierce competitive environment

5. What is The Budget Gourmet brand's strategy?

- Excellent quality and interesting food at reasonable prices

6. How are The Budget Gourmet's Side Dishes doing?

- Share continues to grow, category declining

7. How are Kraft Entrees doing?

- Below expectations

8. Is AAGC participating in the new "healthier" eating trends?

- Yes, with Light and Healthy dinners and entrees, initially successful
- Kraft Eating Right less successful than anticipated

9. What are AAGC's other new product initiatives?
- "Hot Lunch" - smaller size, lunch-oriented microwaveable entrees
 - "Quick Stirs" - entrees with stove top preparation
 - "Birds Eye Easy Recipe" - add meat meals - successful restage
10. What is the outlook for the categories in which AAGC competes?
- 1992 outlook: category trends to continue, entrees +2.0%, dinners -3.0%
11. What has AAGC share performance been in these categories?
- AAGC's 1991 full year shares: Dinners 8.2%, +2.4 pts, entrees 18.3%, unchanged
12. How has Healthy Choice impacted dinners and entrees?
- 1991 shares - 13.5% dinners, 6.1% entrees
 - Aggressive competitors with heavy trade and advertising spending

Birds Eye

13. How is Birds Eye performing?
- 1991 results mixed: volume gains versus prior year on sauced products and volume losses on unsauced
 - Significant progress on product line upgrading and cost cutting
14. How has the frozen vegetables category performed recently?
- 1991 Frozen vegetable category performance: -3.4%

15. Has Birds Eye lost or gained market share?

- 1991 Birds Eye share: 12.8%, unchanged vs. prior year

16. How profitable is Birds Eye?

- 1991 profitability markedly improved vs. 1990. Further improvements expected in 1992

National Dairy Products Corp.

17. What is the status of Sealtest Free Nonfat Frozen Dessert?

- Limited appeal
- Consumers unwilling to compromise health benefit for the taste of ice cream

18. What is Sealtest Free made from?

- Taste and texture replicated by milk proteins and starches
- Meets ice cream standards in all respects except milkfat

19. What is the status of the proposed new federal regulations for Frozen Desserts like ice cream?

- FDA's proposed NLEA regulations tacitly adopt our proposal which would establish four new product standards: (a) nonfat ice cream (b) lowfat ice cream (c) reduced fat ice cream (d) ice cream

2022852710

20. Has the Dairy division lost or gained share in Frozen Desserts and Cultured products?
- Decline of 0.5 pts to 14.6% for Frozen Desserts
 - Full year Cultured shares essentially flat
21. What is the growth of the Frozen Dessert category?
- 1991 Frozen Desserts category growth: +4.8%, particular growth in Frozen Yogurt up 29.6%, although fullfat ice cream also grew 4.0%
22. In view of the Yogurt health image and growth, what is NDPC doing in the area of Frozen Yogurt?
- Sealtest Frozen Yogurt (4.4% share of frozen yogurt) and Breyers Frozen Yogurt (7.6% share of frozen yogurt, two successful NDPC entries
 - Both brands significantly above target levels
 - New reformulations and packaging changes (Sealtest from quart to half gallon, new design on Breyers Frozen Yogurt) major contributors
23. What is Light N' Lively 100 Yogurt and how is it performing?
- Yogurt sweetened with aspartame - no sugar added. Available nationally in 1991
 - LNL 100 and LNL Free successfully captured the health-conscious adult female segment
 - Growth in 1992 expected to continue behind the Cheryl Tiegs promotion

2022852711

24. Has NDPC developed other new cultured products which address "healthy" trend?
- Strong marketplace acceptance of LNL Free and Knudsen Free Nonfat Cottage Cheese, and LNL Free and Knudsen Free Sour Cream alternatives
 - 1992 plans: LNL Light Sour Cream
25. What are Light Ice Creams and does Kraft plan to compete?
- Ice milks must contain by law between 2% and 7% milkfat
 - NDPC competes with Breyers Light Ice Milk and Light N' Lively Ice Milk
 - Light N' Lively Ice Milk to be restaged in 1992
26. Please describe NDPC's Productivity Program
- Strong 1991 Productivity/Synergy performance - \$18.6 MM
 - Key drivers: Operations efficiencies, purchasing synergies
 - 1992 target: \$14.8 MM
 - Expected contributors: Line efficiencies, frozen snacks fixed cost reductions, trade promotion spending efficiencies
27. Are NDPC's products tamper-evident?
- Cool Whip being completed in 1992
 - Will complete tamper-evident packaging for all NDPC

2022852712

28. Salmonella and Listeria concerns

- Awareness of Listeria triggered new set of industry standards
- Operations controls strengthened throughout NDPC
- Confident NDPC's standards most stringent in industry

29. Please comment on the performance of the Super Premium Ice Cream category and the results of Frusen Gladje.

- Super premium segment approximately 2% (gallon basis) of total ice cream. 1991 performance flat
- Frusen Gladje volume declining
- Impact on NDPC overall, negligible

30. Is direct store distribution best way to distribute?

- Greater control of product up to retail shelf
- Better management of product quality
- DSD tonnage expanded in 1991, now 23% of total Frozen Desserts volume
- Additional expansions planned for 1992

2022852713

Novelties

31. What are category trends?

- Frozen Snacks category rebounded in 1991
-
- 5.1% volume growth due primarily to Nestle and M&M Mars competitive activity

32. How will you do in this environment?

- NDPC expects 1992 Frozen Snacks performance to improve
 - Expand presence in adult/all family products, testing Breyers Snacks
 - Target selective marketing programs to kids primarily with the Jell-O brand

33. Are Novelties profitable?

- Frozen Snacks 1991 profitability below expectations
- Significant improvement expected in 1992 due to:
 - (a) Improved marketing focus
 - (b) expanded DSD

Toppings

34. Why does Cool Whip use saturated fats or tropical oils? Are there any plans to eliminate or reduce these fats in the future?

- Coconut and palm kernel oils used to maintain product quality and attributes, such as taste, mouthfeel, whipping characteristics
- Cool Whip Lite formulated with 1/3 less fat. 1991 national rollout a success. Gained 18.6% of the Toppings category

2022852714

35. Is the Toppings category growing? How is Cool Whip doing?

- Toppings category 1991 performance strong
 - (a) +5.8% versus 1990
 - (b) Cool Whip overall share +5.6 pts to 69.0%
 - (c) Cool Whip Lite rollout a major growth contributor
- 1992 growth plans:
 - (a) Increased year round usage/penetration - new kids-oriented marketing programs
 - (b) Product extensions - chocolate

Lenders

36. What type of volume growth do you expect from Lender's this year?

- Lender's projecting 6% volume increase in 1992

37. What percentage of the country does Lender's now cover? Sara Lee?

- Lender's coverage - 100% of U.S.
- Sara Lee's 1991 coverage approximately 55% vs. 70% in 1989

38. What share of the frozen bagel business does Lender's represent?

- Lender's 1991 share approximately 80%, up 1.6 share points

39. How much did Lender's spend on advertising in 1991?

- Nearly \$10.0MM

2022852715

40. How has Lender's premium bagel, B 'N Crusty, performed?
- Slight decline in sales
41. Do you feel Kraft's original assessment of the bagel business was correct?
- Until 1990 annual category growth - 10% as expected
 - 4% decline in 1990; advertising eliminated
 - In 1991 category growth resumed at +3.7%, when advertising support resumed

Tombstone

42. What is the position of Tombstone regarding new products?
- Frozen pizza category requires constant innovation
 - Tombstone committed to new products
 - Very successful new Special Order line introduced in 1991
43. How is your microwave pizza doing?
- 3% volume decline vs. 1990. Product relaunched late 1991
44. Is home-delivered pizza hurting frozen pizza?
- Home-delivered impacts frozen pizza
 - Special Order successfully targets home-delivered

2022852716

45. What kind of growth trends do you expect in 1992 at Tombstone?
- 1992 volume increase projected at 25%
 - Geographic expansion a key contributor
46. How successful has Tombstone's expansion been?
- Very successful - in 60% U.S., plan for 80% by end 1992
47. What share of the frozen pizza category does Tombstone represent?
- Original serving area share above 28%, leadership position
 - Latest total U.S. share: 17.2%
 - Tombstone in second place nationally
 - Ahead of Pillsbury and Stouffer's

2022852717

2022852718

**KGF
COMMERCIAL
PRODUCTS**

KGF COMMERCIAL PRODUCTS

Kraft Foodservice

1. How many distribution locations do you have in Kraft Foodservice at this time?
 - 45
2. How many Foodservice locations are unionized?
 - 12
3. How many employees are there in Kraft Foodservice and how does this compare with your largest competitor?
 - 8,381 full-time employees
 - Sysco has an estimated 20, 000 employees
4. How many locations were affected by your recent work force reduction?
 - KFS Deerfield headquarters employees as well as most field locations
5. How many jobs were eliminated?
 - 276 jobs out of 8,400 nationwide; however, the sales force was not affected
6. Why was the KFS sales force not affected?
 - One of Kraft Foodservice's key strategies is to grow its business, and its sales force is aggressively pursuing this

2022852719

7. How many people were affected at the Deerfield headquarters by the reduction?
- About 100
8. What are your projected sales for Kraft Foodservice in 1992?
- Projected 1992 sales of \$3.6 billion, + 7.2%
9. Are you continuing to sell Kraft Manufactured Products to other foodservice distribution companies?
- KFS is selling KMP to approximately 2,000 distributors
10. Do you have separate distribution facilities to service fast food chains like some of your competitive competitors?
- No, not at this time
11. Has Sysco's acquisition of CFS* placed Kraft Foodservice at a competitive disadvantage in the industry?
- No, Kraft Foodservice is still well positioned to execute its strategies
- *CFS was a well established food service company, always known as CFS Continental
12. Do you plan to overtake Sysco as the #1 Foodservice Distributor?
- KFS focused to achieve #1 ranking in total financial performance and not just sheer size

2022852720

13. Will Philip Morris continue the rapid pace of acquisitions in Kraft Foodservice?
- KFS will evaluate potential acquisitions to fit our strategic needs
14. What is the total number of foodservice acquisition companies you have purchased since you began your acquisition program?
- From 1985 to mid-1989, purchased 26 acquisition companies
 - Last companies purchased were in July 1989 - 3 PYA distribution companies (Pierce Young Angel Co.)
 - 1989 we sold one acquisition company - bringing total owned to 25
15. Do you retain top management in the distributors you have acquired?
- Yes, we do
 - Some owners have retired; while others were promoted to other General Manager positions
16. Please comment on the margins and return-on-management investment (ROMI) you expect from the foodservice business.
- Operating revenue growth of 7-12%
 - Operating profit margins of 2.5 - 3.5%
 - ROMI of 20-30%
 - Goals should be reached in four to five years

2022852721

17. Will you be offering more products to the fast food chains now that Kraft and General Foods are combined?
- Will continue to explore every opportunity to increase market share
18. Do your foodservice locations currently stock General Foods and Oscar Mayer products?
- Yes
19. Do you plan to discontinue other competing brands?
- As a customer-focused organization, we provide foodservice operators with their preferred brands and products
 - Thousands of products including national/regional brands will continue to be stocked in our foodservice locations
20. Do you plan to sell off all or part of Kraft Foodservice?
- No
21. Do you have any regional share leadership position?
- New York and Minneapolis areas

2022852722

22. How many new facilities have you built? What are your capital investment plans?

- Built new foodservice facilities in: Cincinnati, Tampa, Dallas, Denver and Phoenix
- In 1991 a major refrigerated building expansion completed in Minneapolis
- 1991 opened new facilities in Cleveland, Albuquerque and Atlanta
- For 1992, new facilities currently under construction in Pittsburgh and San Francisco
- 1992 - Major facility expansions currently under construction in Salt Lake City and Salem, Missouri

23. Have construction union problems been encountered in Pittsburgh?

- Pittsburgh distribution facility (20 miles north of Pittsburgh) being built by The Haskell Company
- Minor union picketing has been encountered at the job site but has not affected project progress
- One large organized picketing activity occurred January 1992. Minor media coverage
- Allegation of using illegal Mexican cement masons on the job site inaccurate.

2022852723

24. Are the fast food chains you supply requesting "healthier" products to serve in their restaurants?

- Yes - reductions in calories, fat, sodium and cholesterol

25A. What is SANDRA 90?

- A strategic Systems Development initiative which provides Kraft Foodservice with a standardized set of systems capabilities and operating improvements across all districts
- New software developed and installed to support all areas of the business: order processing, purchasing, distribution, finance

25B. What are the business benefits of SANDRA 90?

- Provides standardized and consistent information throughout the business.
- Provides company-wide productivity improvements in distribution and sales
- Eliminates redundant systems costs
- Provides value-added services and sales tools (laptops and KRAFT LINK)

2022852724

26. What is the relationship between KGF and Baxter?

- In 1989 Kraft Foodservice and Baxter signed contract creating an Alliance. It is the only national foodservice distribution program directed to needs of hospital market
- Alliance signed national distribution contract with four of largest multi-hospital groups (more than 40% of US hospital beds)
- Agreement between Philip Morris and Baxter Boards formalizing Baxter alliance through end of decade should be finalized May 1, 1992.
- Sales and profits projected to continue dramatic increase - over \$3/4 billion and \$50 million IFO within five years

20228527254

25C. Status/Schedule

- 15 locations fully operational on SANDRA 90 - approximately 1/2 of our current business volume
- Full roll out to be completed over the next two years

25D. What is KRAFT LINK?

- Proprietary software we developed to provide a unique set of value-added systems to our customers
- Computerized order entry system to access information
- Two major components of KRAFT LINK are:
 - (1) Customers place their own orders directly with the local Kraft Foodservice distribution location
 - (2) Then extract purchase history information
- In 1991 - KRAFT LINK installed at 330 new customer sites

2022852725

KGF COMMERCIAL PRODUCTS

Kraft Food Ingredients

1. What is the Food Ingredients business?

- A \$1.26 billion subsidiary (2400 employees) of KGF that supplies food ingredients, (edible oils, cheese, confections, dehydrated vegetables, seasonings, etc.) to KGF Business Groups, and to major food distribution channels

2. What are the projected unit sales in 1992 vs 1991?

- 2 billion 800 million pounds (plus 120MM pounds v. 1991). 5% increase in Trade Units and 9% decrease in Intercompany units in 1991

3. What is the future of this business?

- Expect 15% CAGR (cumulative annual growth rate) in IFO (income from operations) during 92-96 time period

4. How will fat substitutes affect KFI?

- Limited impact

2022852726

5. Why is Kraft General Foods in the food ingredients business?
 - The ingredients business is growing in unit volume and income
 - Volume generated by KFI helps improve operating efficiencies at shared manufacturing facilities of KGF, such as cheese and confections

6. Have synergistic opportunities for this business resulted from the merger of Kraft and GF?
 - KFI has management responsibility for several General Foods ingredients businesses (California Vegetable Concentrates, Baker's, Oscar Mayer) that shared the same customers as KFI. Combined technical resources and sales organizations.
 - Maxwell House Foamy Coffee Whitener - KFI product for use in Instant Cappuccino (using Jacob Suchard technology). There are other examples

7. What is the strategic focus of the Food Ingredients businesses?
 - Develop new value added products using Technical Center, e.g. products with reduced fat, flavored ingredients, seasonings
 - Doubling of capacity is underway at Albany, MN cheese powder facility

OSCAR MAYER

2022852728

OSCAR MAYER FOODS CORPORATION

1. What is the state of the business?

- Year to date volume ahead of budget by nearly 5%
- Year to date revenues ahead of budget \$14 million, in line with our volume trends
- Income vs. 1991 \$6.2 million ahead
- Revenues ahead of budget but down from 1991 because, by design, we have taken price declines

2. What is Oscar Mayer's position on proposed regulations to revise labeling?

- Oscar Mayer supports FDA and USDA efforts to improve nutritional labeling
- Provided comments to USDA's proposed regulations on February 25
- Requested delay in proposed implementation date to minimize expense

3. What is the current state of Oscar Mayer's labor contracts?

- Labor picture currently stable
- Upcoming major contracts:
 - (a) Davenport, April 1992 (discussions begun)
 - (b) Madison, September 1992

2022852729

4. Oscar Mayer had a major product recall publicized in the news recently. Was that a problem for that product line and was anyone hurt as a result of bad product?

- Recall initiated February 7 was for a limited amount (15,000 lbs) of hot dogs in limited region (7 state aea).
- No consumer contacts (which had a use-by-date of February 13), but retailer alerted us
- Oscar Mayer initiated the recall and worked with USDA on it
- To best of our knowledge, no confirmed illness as a result

5. I understand Oscar Mayer is closing one major plant in California, stopped construction on a half-completed plant in Missouri, and offered early retirement packages to many of its employees. What is happening with that unit?

- On December 5, 1991 Oscar Mayer announced it would
 1. Discontinue turkey processing at its Tulare, CA plant, effective May 22, 1992
 2. Offer an enhanced retirement package to 340 employees currently eligible to retire
 3. Use attrition to reduce employee total
- Turkey volume, which had grown an average of about 12% during the 1980's, has slowed to annual growth of about 2%
- Objective is to cut costs by eliminating excess manufacturing capacity and reducing headcount

2022852730

6. How have employees at Oscar Mayer been affected?

- 341 employees were eligible to take advantage of the Early Retirement Incentive Program
- 252 accepted program

2022852731

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KGF-GENERAL

2022852733

KGf-GENERAL

KRAFT GENERAL FOODS

Operations and Technology

1. What does KGF plan to do to improve product shelf life?
 - Improved packaging, protection from oxygen, moisture effects
 - Continuous improvement in quality control procedures
 - Use of increasingly rigorous methods to evaluate shelf life
 - Greater use of consumer testing to establish acceptance criteria
 - Improvement in distribution system abuse (frozen) that affects product life
2. What productivity improvements has KGF made and what can we expect for the future?
 - Statistical Process Control and a highly visible cost savings idea program
 - Reduction in labor through new technology, while maintaining KGF's traditional, positive labor relations
 - Design of unique equipment for high speed/efficient manufacturing
3. Are you going through a restructuring in the plant locations?
 - Yes. Took a restructuring reserve last year
 - Oscar Mayer Tulare
 - Oscar Mayer Sedalia
 - GF Evansville

2022852734

4. Why is KGF altering the formulations of successful products?

- Formulas are continually adjusted on select products
- New technology improves product or reduces costs
- End result enhances competitive advantage

General

5. How does KGF compare with peer group companies in R& D spending?

- Peer group average in 1990 1% of sales
- KGF in 1990: 0.8% (\$205.0 million)

6. Does KGF plan to increase R&D spending in 1991?

- Yes. Up 3% vs. 1991...primarily in international R&D

7. Have KGF's R&D facilities been expanded?

- Yes. Expansion plans in 1991 included additional pilot facility at Tarrytown and an expansion of the Munich Technical Center
- A long-term strategic facility plan study just completed also shows a need to increase Chicago facilities. This is under study

8. What percent of KGF's R&D expense applies to new products (including line extensions)?

- 30% 1992 projection

2022852735

9. Please describe KGF's priorities in the R&D area
- Reduced fat/cholesterol/sodium in R&D area
 - Product improvements and upgrades in core categories
 - Strategic research initiatives
 - Synergy productivity programs
10. What is KGF doing to monitor all global, newly-emerging technologies that will impact the food industry?
- Broad monitoring world-wide of newly issued patents, food processes, packaging, innovative food ingredients
 - Monitoring accomplished by in-house technology surveillance group and outside consultants
11. What new technologies does KGF see impacting the food business in the next five years?
- Fat substitutes and fat-free products
 - Microwave
 - New preservation technologies
 - Computer-integrated manufacturing
 - Second generation artificial sweeteners
 - Biotechnology
 - Improved plastic materials and fabrication processes
 - Environmentally friendly packaging
 - Advanced process control
 - Salt replacement

2022852736

Biotechnology

12. What is KGF doing in the area of Biotechnology?

- Expanding efforts to use enzymes in cheese manufacture
- Support of outside efforts in areas of genetic transfer for improving microorganisms in cheese starters
- Developing new uses for enzymes and controlled fermentations
- Improving cheese flavor delivery systems
- Producing natural stabilizers
- Producing healthier edible oils via modification of crops

Ultrafiltration

13. I have heard about the use of a process known as "ultrafiltration" in the manufacture of cheese. Can you explain this process and how it affects the cheese? Is KGF using this technology?

- Ultrafiltration is a membrane process for separating large molecules from small ones. Differs from ordinary filtration mainly in the fineness of pores of the membrane through which the fluid stream passes
- In cheesemaking, ultrafiltration recovers more of the milk components, proteins, and fats
- Results in higher yields of cheese. Used for some time in Europe
- KGF has been evaluating for more than 10 years, and ran pilot plant for three years

2022852737

Packaging

14. What is KGF doing about the solid waste created by its packaging?

- KGF supports the EPA Agenda for Action for dealing with solid waste. Includes source reduction, recycling (including composting), incineration and safe landfilling
- Source reduction activities have saved millions of pounds of material entering solid waste stream
- Over the past 10 years, KGF has reduced the amount of packaging material in our products by over a billion pounds
- KGF now using nearly 500 million pounds of recycled packaging and shipping materials a year
- KGF actively participating in legislative and regulatory dialogues

15. What is KGF doing to make its products more convenient?

- Convenience always a key part of total product design
- Ease of opening, reclosability of packaging major factors
- Kraft Singles in refrigerator "keeper" available to consumers
- Instructions for either stove top, conventional oven or microwave oven preparation by the consumer
- Packaging that allows preparation in either Microwave or conventional oven (Budget Gourmet Frozen Entrees)

2022852738

Competition

16. What is KGF doing to monitor the R&D strengths and emergent technical breakthroughs of its prime competitors?
- Monitors total R&D expenditures/total food R&D expenditures, R&D personnel count/skills assessment, new research facilities, pilot plant facilities, new product development activities
 - Studies technological trends reported in literature, e.g. patents and publications, etc.
 - Through external technology acquisition and alliance tracking
17. Several U.S. industries have been critically impacted by foreign competition whose products are often reverse-engineered U.S. copies. Could this happen in the food industry? What is KGF doing to protect itself?
- Yes, this can happen
 - Investing in superior basic scientific and processing technology to stay in the lead
18. What is KGF doing to monitor the threat of the Japanese food companies' entry into the United States?
- KGF Technology Information Center constantly monitors technology activities of key Japanese food companies
 - U.S.-based consultant meets monthly at KGF Technology to report on new technology developments in Japan
 - New Japanese products in U.S. markets are monitored

2022852739

New Products - Microwave

19. Does KGF plan to bring out any microwave products? Which of your current products are microwaveable? Does KGF plan any additional formulation of products for microwave use?
- New leading edge packaging technologies for frozen microwave cookery developed and patented
 - Line of frozen entrees which can be prepared in both conventional oven and microwave
 - KGF continuing to incorporate microwave convenience for all appropriate products either through new product designs or addition of microwave usage instructions
 - Cheez Whiz with microwave instructions, although product not reformulated
 - Microwave only products, with the exception of popcorn, have not made significant market penetration

New Products - Commodity-Based

20. Are we going to continue to rely heavily on commodity-based products like oils for KGF products, or are we going to more value-added products?
- For some key brands (Kraft Real Mayonnaise), certain standards of identity regulate level of particular commodities in a given formula. Compliance is required
 - In other products, added value results from converting commodity materials into highly valued brand items

2022852740

Health

21. Recent reports from the U.S. Surgeon General and the National Academy of Science have indicated a link between certain dietary constituents and health. The reports recommend that consumers reduce their consumption of fat, saturated fat, and cholesterol. Are these recommendations a problem for KGF?
- All KGF products can be included in a diet that meets recommendations of both the Surgeon General and National Academy of Sciences
 - Eating a balance and variety of foods in moderate amounts is the key to achieving a "healthy" diet
 - KGF offers fat free and reduced fat alternatives to traditional foods in a number of product categories to help consumers reduce dietary fat levels without giving up their favorite foods
 - KGF will continue to conduct and support research in the nutritional sciences. Findings are applied to business decisions, product optimization and communication programs
 - KGF places high priority on the development of new technologies and products which can further enhance consumers ability to meet specific dietary needs such as fewer calories, less fat, cholesterol and sodium
22. Many dietary guidelines suggest avoiding too much saturated fat in the diet. What KGF products are being reformulated to reduce fat and cholesterol?
- KGF offers a lower fat and/or fat free alternative in a wide variety of product categories that typically contain fats

2022852741

23. Does KGF see a significant risk to its product portfolio given the consumer concern about fat and cholesterol?
- KGF has been a leader in offering the consumer choices through the introduction of reduced-fat and fat-free and reduced-cholesterol products.
 - KGF has a nutrition education initiative to help people limit dietary fat
24. What Kraft cheeses are lowest in saturated fat?
- Relevant Kraft products are too numerous to list here
25. What is your response to the allegation that KGF products are high in cholesterol?
- KGF offers lower fat, lower saturated fat and lower cholesterol alternatives in many product categories
 - Some people can reduce elevated blood cholesterol levels by limiting levels of saturated fat and fat in the diet
 - There is no consensus that reducing dietary cholesterol intake has a clear lowering effect on serum cholesterol.
 - Information about fat and cholesterol content in KGF products is readily available to consumers through nutrition labels, toll-free numbers on many products, or through educational materials distributed by KGF such as the "Food Matters" and "Sane Talk" series of brochures

2022852742

26. Some reports suggest that hydrogenated oils raise serum cholesterol (trans-fatty acid issue). What is the KGF response?
- A study published in 1990 suggested that very high levels of specific fatty acids found in hydrogenated oils may raise serum cholesterol in normal individuals
 - Not known whether the same results would be seen at lower dietary levels or in individuals with elevated blood cholesterol levels.
 - The results to date are inconclusive and KGF is co-sponsoring research to determine if more reasonable consumption levels affect blood cholesterol.
27. It is reported that some of KGF's competitors may be developing fat-like ingredients that are non-digestible and provide no or low calorie alternatives to dietary fat. Is KGF doing any work in this area?
- KGF does not have a strategic research program to develop non-digestible fat-like ingredients i.e. "synthetic" fat substitutes
28. What impact will Procter & Gamble's Olestra fat replacement have on KGF?
- No near-term impact of Olestra on KGF is foreseen
 - Petition for FDA approval of Olestra only covers use in frying oils and fried snacks; not in key KGF categories

2022852743

29. Does KGF have its own fat substitute?

- KGF has a number of technologies lumped under the heading "Trailblazer"
- KGF uses a combination of technologies to deliver fat free products which taste good

30. What is your response to the allegation that many of KGF's food products are high in sodium?

- KGF markets a number of products that qualify as very low or low sodium according to current FDA labeling regulations
- Salt plays a key role in cheesemaking to prevent spoilage, yet some natural cheeses do meet the "low sodium" definition established by FDA

31. What is KGF doing to reduce sodium in its products?

- A number of low and reduced sodium products in the market e.g.
 - very low sodium Swiss cheese
 - Budget Gourmet Light and Healthy Frozen Dinners
- Development of other reduced sodium products is underway
- Strategies in place and programs in progress to reduce sodium where possible
- Reduction of sodium must be done carefully and with thorough testing to ensure product safety, quality and consumer acceptability

2022852744

32. Does KGF currently use Aspartame in its products? If so, does KGF recognize and believe the claims of a health hazard made against Aspartame?
- KGF markets a number of products which contain Aspartame
 - The FDA has stated that Aspartame is safe and the claims against its safety are unfounded
 - Aspartame is made up of two commonly consumed amino acids and has been tested more thoroughly than any other food additive
33. Does KGF view Simplese as a viable fat substitute?
- KGF has no specific plans at this time to use Simplese in fat free products
34. Is Monosodium Glutamate (MSG) a safe ingredient?
- MSG is approved "Generally Recognized as Safe" for use in foods by the FDA
 - The overwhelming evidence from scientific, academic and government research concludes that MSG is safe

2022852745

35. There have been reports that aluminum is linked to Alzheimer's disease. Does KGF market products which contain aluminum?
- The evidence linking aluminum to Alzheimer's disease is inconclusive
 - Aluminum is found at low levels throughout the environment, including the drinking water
 - Aluminum occurs naturally in many foods
 - Some food additives, used by KGF and other food manufacturers to promote the stability and quality of certain foods, do contain aluminum
 - These aluminum-containing food additives have been tested for safety and approved for use in food by the FDA
36. Does KGF plan to fortify any products with calcium?
- Many KGF products are good sources of calcium
 - Fortification of KGF products with calcium or any other nutrients should not be done indiscriminately
37. Many food companies are introducing high fiber products. What is KGF doing to meet consumer needs for more fiber containing products?
- POST® cereals offer a complete line of ready-to-eat cereals, many of which are high in dietary fiber

2022852746

38. Are there more "emerging pathogens" that can cause problems of the same dimension as Listeria?
- Salmonella and Botulism are continuing issues which KGF monitors and manages
 - KGF actively uses the Hazard Analysis Critical Control Point (HACCP) System to assure food safety
39. Is KGF planning to tell consumers when/if they start using irradiated ingredients, even if the FDA does not require it?
- KGF does not presently use any irradiated ingredients, nor are there any plans underway to start using them
 - Since KGF has no plans to start using irradiated ingredients, we have not developed a position on labeling such ingredients.

Pesticides

40. What has KGF done to prevent pesticide contamination in its products?
- KGF works with many states which have an ongoing testing program for pesticides in commodities
 - Several KGF business units have programs to test raw materials which are grown or produced with the aid of pesticides

2022852747

41. Does KGF market any products which contain apples treated with Alar (daminozide)?
- KGF has obtained assurances from our apple suppliers that KGF is provided with daminozide-free apples
 - The EPA has banned the use of this pesticide
42. Does KGF sell products which contain pesticides that contribute to these adverse health effects in children?
- There is evidence that some manufacturing methods used to make prepared or processed foods actually reduces the levels of pesticides in many foods
 - Officials at EPA and FDA examined the NRDC report and they concluded that the report overestimated the true health hazard to children
 - In 1989, FDA tested over 18,000 food commodities and found that over 65% had no detectable residues and less than 1% had residues in excess of federal regulations
 - These results continue to demonstrate that the levels of pesticide residues in the U.S. food supply are very low

2022852748

43. Glass in product has been in the news. What is KGF's position?

- KGF has significant programs in place to prevent the entrance of glass into product
- KGF's glass defect rate is extremely low
- Supplier programs are in place to reduce risk
- All glass is inspected upon receipt and passes through cleaners on filling lines
- Documented procedures exist to remove any hazard should glass break on the production line
- New detection technology is being evaluated to be able to pick up foreign materials, like glass, in product during production

44. The FDA has announced they are increasing their activity, especially in the dairy areas. Will this impact KGF?

- Likely to mean more inspections of KGF plants and more sampling of KGF products
- Believe our programs are more than sufficient to withstand the increased scrutiny
- KGF's goal is to meet or exceed government guidelines

2022852749

45. Considering the Salmonella in milk and Listeria in soft cheese, what is KGF's position and defense?
- Evaluate the product and process from conception to consumption using an extensive, formal food safety program, HACCP (Hazard Analysis Critical Control Point)
 - Use appropriate heat processes to kill any organisms which come with the raw materials
 - Maintain absolutely clean processing environments
 - Properly design equipment and facilities to prevent contamination, with special attention to preventing post-processing contamination
 - Continuously train production plant employees in the use of Good Manufacturing Practice procedures (GMP's)
46. Have you solved the Listeria problem?
- No foodborne outbreaks in the U.S. since 1985
 - Extensive programs in place to control the incidence of Listeria
47. What steps are you taking to prevent Listeria problems outside the U.S.?
- KGF standards are the same whether the facilities are international or domestic
 - Listeria regulatory standards are different across different countries, but the need for control is the same

2022852750

48. What does KGF do in product tampering cases?

- Plan to issue mid-1992 worldwide guidelines re tamper-evident packaging
- All effort is focused toward cooperating with the appropriate law enforcement agencies--FBI, local authorities--and the FDA
- Tampering, generally, has decreased over the past few years

49. How many tampering cases has KGF had in the last year?

- No actual confirmed tampering cases
- Possible tampering cases (communication from consumer)--less than 100 (Specific numbers available from Business Group Consumer Service)

2022852751

KRAFT GENERAL FOODS

Acquisitions and Divestitures

What acquisitions and divestitures did KGFNA make in 1991?

Acquisitions

- Capri Sun - producer of all natural fruit drinks sold in distinctive pouches

1991 sales were approximately \$100 MM

represents excellent fit with GF USA's beverage businesses (Kool-Aid, Tang, Country Time, Crystal Light)

NOTE: We agreed not to disclose the purchase price (\$155,000,000)

- MC Pectin - This small producer of pectin purchased by GF USA from Borden

Pectin is a gelling agent for homemade preserves

NOTE: We agreed not to disclose the purchase price (\$7 million)

Divestitures

- Carroll Shelby Chili Business - Kraft USA sold this small, non-strategic dry mix chili business to Wm. B. Reily & Company

1991 sales were approximately \$5 MM

NOTE: We agreed not to disclose the sale price (\$7 million)

2022852752

MILLER

2022852753

MILLER BREWING COMPANY

1. How strong were Miller's sales in 1991?

- Increased shipments last year 0.4%, from 43.5 to 43.64 million barrels
- Explosive growth in Genuine Draft Franchise. Miller Genuine Draft was the only full-calorie premium beer to grow, and Miller Genuine Draft Light successfully rolled out nationally, ending year as 10th best-selling beer in supermarkets

2. Is there a future for Miller High Life?

- Absolutely. Miller High Life is one of 10 best selling brands in country, and is leading brand in certain key markets

3. How is Miller Lite doing?

- Miller Lite is leading brand in industry's fastest growing segment, the low-calorie segment, which Lite virtually created when it was introduced 18 years ago. The brand controls more than 42 % of premium low-calorie segment
- Miller Lite's new advertising campaign effectively builds upon the brand's category leadership and popularity by positioning Miller Lite as the best beer, not just the best light beer, for consumers today

2022852754

4. How is Miller Genuine Draft doing?

- Miller Genuine Draft was only premium beer to register growth in 1991
- It is the fastest-growing premium beer, the seventh best-selling beer in the country and the fifth best-selling brand in supermarkets

5. How is Miller Genuine Draft Light doing?

- Exceptionally well. Introduced in April 1991, it is the tenth best-selling brand in supermarkets. It parallels the success of its full-calorie partner, Miller Genuine Draft
- Recently created new secondary packaging for both brands for customer convenience

6. What is the position of Sharp's, Miller's non-alcohol brew?

- Has been leading non-alcohol brew since its introduction December 1989
- Brand now holds about 30% share of non-alcohol brew market. Shipments continue to increase every year
- Raising awareness of the brand among active, sports-minded consumers with our support of US Ski Association and Professional Golf Association

2022852755

7. Are there plans to introduce a Miller dry beer?
 - Have yet to see any indication that dry beers currently on market offer beer drinkers any unique benefits or will develop into viable segment of beer industry

8. How much money did Miller Brewing Co. spend last year in support of its "Think When You Drink" campaign?
 - Approximately \$10 million last year in support of national advertising and consumer communications (print advertisements, billboards, TV commercials).

2022852756

PM USA

2022852757

PHILIP MORRIS USA

1. What is Philip Morris' position and market share in the U.S. cigarette market?

- Increased leadership position in 1991. Now has 43.48% share of US market. Up 1.1 market share points from 1990

Market share by company - 1991

Philip Morris	43.4%	+ 1.1%
R.J.Reynolds	27.8%	- 1.8%
Lorillard	7.3%	- 0.3%
American Brands	7.0%	+ 0.2%
Liggett	3.4%	(flat)

- PM's unit volume also increased by .19 billion units to 220.7 billion units despite approximately 2.4% industry decline
- Industry volume 1991/1990 comparison:

1991	509.10 billion units
1990	521.60 billion units

2. Will the U.S. tobacco industry continue to decline in the future?

- We expect that the industry will continue to decline in the 2 - 3% range, as in past few years. 1991 industry decline was 2.4%

2022852758

3. How does Philip Morris propose to continue earnings growth in the U.S. cigarette business?

- Continue to grow share and volume
- Introduction of superior innovative products
- Factory expansion and modernization, especially with our Cabbarus expansion

4. How is Marlboro doing?

- Marlboro's share of US. market reached 25.8% in 1991
- This was aided by introduction of Marlboro Medium which is running at a 1.4 share rate, better than we anticipated

5. Does Philip Morris engage in inventory loading for purposes of managing its earnings?

- No. PM does not engage in earnings management through the use of inventory loading
- Programs designed to help customers keep inventory level consistent with demand, notably to ensure orderly transition during price increase periods

2022852759

6. How are PM sales affected by the continuing campaigns (of Health & Human Services Secretary Louis Sullivan and Surgeon General Antonia Novello) against cigarette advertising and sales to targeted groups?
- Their ongoing campaigns help to encourage our legislative adversaries, though we continue to grow in market share and volume
 - We agree with both officials that minors should not smoke
 - Also, we applaud Secretary Sullivan's recent statement against increasing consumer excise taxes on cigarettes because of their adverse economic consequences
7. What effect has the federal smoking ban on domestic flights had on Philip Morris' business?
- Very difficult to assess
8. Have local ordinances (particularly in New York City) which ban cigarette vending machines from public places had any detrimental effect on the Company?
- Hard to judge
 - Validity of New York City vending ban currently in question, as a result of legal action taken by the vendors. A Temporary Restraining Order has suspended the vending ban; the case will be formally heard in near future

2022852760

9. What is PM's position in the price value market for "generic" and lower-priced cigarettes?

- This market represents 17% of our volume (25% of domestic industry)
- We entered this market in 1986, and as of 1991 we are the industry leaders in this segment with 29.6% market share
- We gained 3.6% increase in this segment last year alone

10. What are the reasons for *Philip Morris Magazine* and *Smoker's Advocate*? What are their circulation and their costs?

- *Philip Morris Magazine* is a free quarterly, with 48 pages of articles on America's favorite people, places and pastimes, together with issues of interest to today's adult smokers. Circulation in 1991 was approximately 1.5 million. (Not to be disclosed: cost is \$5 million)
- *Smoker's Advocate* is monthly national newsletter, designed to educate and inform adult smokers about important legislative and social issues. Circulation approximately 500,000 (Not to be disclosed: cost is \$1.3 million)

2022852761

11. Can you give details about the Marlboro Grand Prix coming to New York City in 1993?
- Philip Morris shares Mayor Dinkins' goal of preventing minors from smoking and has agreed to run the following program in conjunction with the race:
 - During race promotion period, 30% of outdoor signs advertising the race will be devoted to a youth no smoking message
 - During intervening period between race, 350 of our outdoor signs, situated near schools and centers of youth activity, will be dedicated to the youth no smoking message
 - PM will distribute the Tobacco Institute's brochure (Tobacco: Helping Youth Say No) throughout the NYC public school system to students. They will also be given out the day of the race with the racing program
12. What is Philip Morris doing to prevent smokers from being discriminated against in employment?
- So far, 23 states* have enacted laws which prevent smokers from being discriminated against in employment. We support legislation which forbids employee discrimination against people who choose to smoke off the job
- * Number of states that have passed similar legislation may increase before the meeting

2022852762

13. What is your reaction to the Surgeon General's most recent report on smoking and health?

- This year's report was a compilation of figures and recommendations which were not new.
- It represented the first foray into foreign policy by a Surgeon General. A number of Hispanic-American organizations have objected to the tenor and substance of the report
- We believe the criticism of the report is justified

14. Are any state, federal, local or foreign officials ever transported on corporate aircraft. If so, why? Isn't this practice prohibited by the Federal Elections Campaign Act?

- Federal Election Law does not prohibit providing travel to public officials; it requires only that such travel, if it is for campaign-related purposes, be paid for by the candidate. Such travel is governed by the ethics rules of the relevant legislative body
- All travel involving public officials is undertaken only pursuant to clearance in advance by Counsel

2022852763

2022852764

PMINT'L

PM INTERNATIONAL

1. Do we expect Philip Morris International to continue to grow at its present rate (volume 10+%, income 20+%)?
 - Do not expect PMI to grow volume at recent accelerated rate, as many one-time events (East Germany, Russia, Eastern Europe) and market openings (Japan, Korea, Taiwan, Thailand) are behind us
 - Expect PMI will return to more normal rate of growth in the 4-6% range.
In terms of income PMI should be able to grow at rates around 20%

2. How will Philip Morris International structure its business in Europe post 1992?
 - PMI already structured to take advantage of EC's elimination of trade barriers. Production is concentrated in a few large factories. Management centralized for all the EC markets in our regional headquarters, and our brands available in all EC member states
 - In our 30 years in Europe, Company has conducted its business on a pan-European basis, so the creation of the "Single European Market" will not necessitate any fundamental change in our strategy

2022852765

3. Does Philip Morris International do any business in Northern Ireland?
- Yes. Philip Morris tobacco products are sold in the UK by the Rothmans UK partnership. Northern Ireland is part of the United Kingdom and has the same constitutional status as Scotland and Wales relative to England. *Marlboro* share in N. Ireland is 1% and *Raffles* is less than 1%
4. How much new business did we do in Eastern Europe last year? What are the prospects for 1992?
- In 1991 our cigarette volume in Eastern Europe and Russia more than doubled to nearly 30 billion units. In Hungary we acquired the Egri factory
 - In 1992, we expect material volume gains in Eastern and Central Europe (Hungary, Poland and Czechoslovakia), and are aggressively pursuing all opportunities

2022852766

5. What are the prospects for our business with Russia?

- We have signed contracts in Russia for 13 billion units in cigarette exports, as well as local production of Marlboro in 1992. This initial order includes the supply of US exports as well as cigarettes manufactured in Philip Morris facilities abroad
- Local production of Marlboro expected to start later this year at two locations in Russia
- We are committed to playing a leading role in the modernization and development of tobacco industry in Russia and the other Republics

6. What is the situation with regard to payment of receivables from Russia?

- Last year we had our largest ever export order from Russia, for over 20 billion units
- The Russians paid on time until recently when break-up of Soviet Union caused chaos in banking system. We are assured delays are administrative, and they have pledged to pay us in full
- Amounts currently outstanding not large and we have no significant financial exposure. All payments guaranteed by Russia's foreign trade bank and will be in hard currency

2022852767

7. What is the present status of Philip Morris' business in Germany?

- In 1991 Philip Morris was the leader in the unified German cigarette market, with a 34.6% market share, up 1.7% from 1990
- In 1991, the Dresden unit (purchased in 1990) produced 12.7 billion cigarettes - 20% more than the amount produced before takeover. That company's F6 brand is leading brand in the eastern part of the country and the third largest selling brand for all of Germany
- Marlboro is leading brand in Germany with market share of 26.2% for the Marlboro family and 20.6% for Marlboro King Size

8. Is it correct that Italy has recently put a ban on selling our products in that country?

- There was a 30-day suspension of sales of several international brands, including Marlboro. This was part of the government's ongoing effort to use legal imports as a way of controlling contraband cigarettes, a problem which is endemic in Italy
- The ban is no longer in effect. The Italian government has enlisted Philip Morris and other members of the tobacco industry to assist in its efforts to bring this problem under control

2022852768

9. Are the partnership arrangements in Canada and the U.K. successful?
- Yes. Both Canadian and UK partnership arrangements have yielded positive cash flows since their inception, compared to significant losses in past years
10. Has Philip Morris International been able to take advantage of Japan's tariff suspension for cigarettes?
- Yes. Philip Morris' business in Japan has grown following suspension of import restrictions
 - In 1991 Philip Morris had over 11% of the total market. Our leading brands, *Lark* and *Parliament*, are among the top ten selling brands in Japan, and PM brands represent over 60% of the international segment
11. What difficulties has Philip Morris International had in developing the Korean market? What is the current market share?
- Since the market opened to cigarette imports in 1988, imports have grown from almost nothing to 5% in 1991
 - Philip Morris has a 38% market share of the international brand segment and is the leading importer

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12. Does Philip Morris International do business in the People's Republic of China?

- PMI competes in the very small import segment of the PRC cigarette market. The main PM brand on sale is Marlboro, which is the leading international brand in China
- PRC is world's largest cigarette market with a 1991 volume of 1.7 trillion units, but import segment limited by availability of hard currency and makes up less than 1% of that market
- We continue to monitor carefully social and political developments with a view to broadening our business

13. What is the Company's policy regarding the conduct of business in South Africa? Has the Company any specific steps to seek modification of its apartheid laws?

- Neither Philip Morris Companies Inc., nor its subsidiaries, owns any factory, employs any people, or operates any business in South Africa.
- We do have 4 minor license agreements for food and tobacco products. These license agreements have varying terms and cannot be cancelled unilaterally. Revenues from these agreements are relatively insignificant, representing less than 0.1% of PM's total revenues and income

NOTE: U.S. economic sanctions affecting our products were lifted in mid-1991; state and local sanctions remain in place. We have made no decision regarding future activities

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14. What is the extent of Philip Morris International's business in developing countries?
- Philip Morris International's products are sold in throughout the world.
Our efforts to build our international business began in 1954, when Philip Morris Australia Ltd. became our first major overseas affiliate
 - Vast majority of our business continues to be in the developed countries.
Approximately 94% of our consolidated operating income from tobacco comes from Philip Morris business in countries which are part of OECD (Organization for Economic Cooperation and Development)
15. Are U.S. cigarette manufacturers selling higher "tar" and nicotine cigarettes in developing countries?
- No. Philip Morris brands sold overseas are essentially the same as our products sold here. Some local variations, such as lower "tar" and nicotine are imposed in some countries
 - On average, PM brands sold outside the US have lower "tar" and nicotine than the local brands with which they compete
16. Did the company do any business with Iraq prior to Iraq's invasion of Kuwait?
- Philip Morris has never had any presence in Iraq. However, small amounts of PM products were imported into the country before the invasion

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17. What is the rate of export volume growth?

- Overall, 1991 shipments showed growth of nearly 10% over 1990
- Expect more moderate rate of growth in 1991. Difficult to predict due to uncertain conditions, e.g. in Eastern Europe

18. Why do we export a product which is alleged to be dangerous?

- Philip Morris manufactures and exports a product which is sold legally in every country in the world
- PM competes in established cigarette markets outside the US
- PM's US exports account for less than 3% of worldwide cigarette consumption
- If we did not participate in international cigarette market, this would hurt
(a) American farmers, (b) factory workers, (c) business, (d) US balance of payments (e) tax revenues. There would be no impact whatsoever on worldwide consumption of cigarettes

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19. Has the cigarette industry influenced the U.S. government, causing it to devote an inordinate amount of time and attention on cigarette export problems rather than other U.S. products?
- No. A 1989 investigation by the General Accounting Report concluded that the US Trade Representative did not appear to give preferential treatment to tobacco products over other items. They believed that "because cigarettes are legally sold in the United States and abroad, they should be treated no differently than other products in trade negotiations"
 - In 1991, all tobacco products generated a balance of trade surplus of over \$4.7 billion. This is in contrast to the nation's merchandise trade deficit of over \$66 billion for the year
20. Are we increasing our manufacturing capacity for exports?
- We are in process of expanding our factory in Cabarrus to meet the growing demand for U.S. exports
 - We are also increasing the capacity of two of our European manufacturing facilities to source European requirements, which will result in cost savings
21. Is the US Government's Market Promotion Program helping us to increase our cigarette sales overseas?
- No. Cigarette exports do not qualify for any assistance from either the Department of Commerce or the U.S. Department of Agriculture

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SHAREHOLDER ISSUES

A. Advertising

AMA ban
Directed at specific audiences
"Old Joe" Camel advertisements
EC countries
Canada

B. Compensation, executive

C. Contributions, philanthropic " political

D. Corporate Matters

1. Agreements: Change of Control and Employment
2. Audit issues
3. Business with minority groups
4. Currency
5. Meetings: Board of Directors
" Shareholders
6. New York headquarters
7. Officers, minority and women
8. Shareholder Proposals
9. Stock - Divestment
" Dividends
" Ownership
" Repurchase

E. Environment

1. Policy
2. ETS

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F. Human Resources

1. Affirmative Action
2. Testing for unlawful drugs
3. Testing for AIDS
4. Sexual harassment
5. Harassment
6. Handicapped employees
7. Club memberships
8. KGF Management Development and Personnel
9. KGF union relations
10. KGF safety
11. KGF affirmative action
12. Closure of Hoboken plant
13. Closure of Evansville, Ind. facility
14. Move of Baker's chocolate to Canada
15. Oscar Mayer plant closings

G. Labeling

Tobacco
LGF Products

H. Legislation

1. Corporate
2. Tobacco
3. KGF Products

2022852776

- I. Litigation, actual and threatened
 - 1. Corporate
 - Smoking and health products liability suits
 - Cipollone*
 - ETS suits
 - Insurance
 - Judge Sarokin
 - Rocco Cappuccitti/ OPDI vs Frito-Lay (HFL)
 - 2. Philip Morris USA suits and issues
 - 3. KGF litigation
 - 4. Human Ressources (class actions)
- J. Questions at other companies' annual meetings
(to be developed between April 1 and 16 rehearsals)
- K. Smoking and Health (including animal rights)
- L. Taxes
 - 1. Tobacco
 - 2. Miller Brewing

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A

2022852778

A. ADVERTISING

1. What is Philip Morris' position on the American Medical Association's call for a complete ban on the advertising and promotion of all tobacco products?
 - AMA's proposal directly conflicts with fundamental rights to commercial free speech under the First Amendment
 - We doubt such a ban would have the intended effect. In some countries smoking actually increased following the imposition of advertising bans

2. Does Philip Morris make special efforts to advertise its cigarette products to African-Americans, Hispanic-Americans and women?
 - We advertise our cigarette products to adults, whatever their ethnic and socio-economic background, who choose to smoke
 - As one of the nation's largest advertisers in print media, it is not surprising that PM advertises in many African-American, Hispanic-American and women's publications

3. Does Philip Morris target minors in its advertising?
 - No. We participate in programs to discourage the young from smoking
 - We have developed a major retail and vending program called "It's the Law" to discourage sales to those under age
 - We participate in design and distribution of booklet, Helping Youth Say "No", to enable educators and parents to help minors

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4. The "Old Joe" Camel advertisement for RJR's Camels is receiving much criticism from the Surgeon General, other government officials and the AMA. What is Philip Morris' position?

- It is not our practice to comment on the advertising of our competitors.

However, we believe that the First Amendment protections which extend to commercial speech adequately and morally shield this advertising from such attacks

5. How would Philip Morris business be affected by the enactment of any of the current proposals on non-deductibility of cigarette advertising expenditures?

- Would adversely affect our ability to advertise our products

6. Are U.S. cigarette manufacturers introducing cigarette advertising to newly opened international markets, causing more people to smoke?

- Vast majority of studies show that advertising has no significant influence on whether or not to begin to smoke. People begin because of familial circumstances, societal influences and peer behavior
- This issue was examined at length during the Constitutional Challenge to the Tobacco Products Control Act in Canada. Matter was litigated for months, and no basis was found for allegation that cigarette advertising is the cause of smoking

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6. What measures restricting advertising have been adopted outside the United States?
- Most countries have regulations which affect advertising in general and cigarette advertising in particular. Countries such as Singapore have total bans while nations such as Germany and Japan respect the importance of commercial free speech
7. What is the current situation with respect to advertising in the EC countries?
- A draft Advertising Directive banning all tobacco advertising was recently approved by a narrow margin by the European Parliament
 - But Directives do not become law unless adopted by the Council of Ministers. The next Council vote will be in May 1992. Currently five of the 12 EC Member States oppose the Directives. This minority constitutes a blocking vote under the rules of the European Parliament
8. What is the status of the constitutional challenge to the advertising ban for tobacco products in Canada?
- On July 26, 1991 the Quebec Superior Court struck down Canadian Tobacco Products Control Act (T.P.C.A.). Judgement found no basis for allegation that cigarette advertising is the cause of smoking
 - Canadian government filed an appeal in 1991 which will be heard in Quebec Court of Appeals in May 1992. It is expected the appeal judgement will be taken to the Canadian Supreme Court

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MHB
Revisions 4/20
highlighted

**PHILIP MORRIS
1992 ANNUAL SHAREHOLDERS MEETING**

COMPENSATION QUESTION & ANSWERS

GENERAL QUESTIONS

1. What is Philip Morris Compensation Philosophy?
 - We provide competitive levels of base pay to attract and retain top talent.
 - We pay for performance tied to results, and emphasize large variable pay when maximizing shareholder value.
 - Fair, motivating and rewarding.
 - Consistent with company's culture and organization.
2. How closely tied is the level of our pay programs to business results?
 - We believe they are closely aligned.
 - Our compensation levels are reflective of our strong performance.
 - Philip Morris pay programs are linked to business results at the corporate, business unit and individual levels.
 - Philip Morris pay for performance philosophy links salary increases to achievement of individual goals and objectives.
 - Incentive compensation payouts (annual incentive, stock option and long-term programs) are based on corporate and business unit measures such as:
 - EPS growth
 - Revenue growth
 - Volume growth
 - Market share growth
 - The quantitative measures vary depending upon the business and may be combined with a discretionary component.
3. Do you believe your plans are competitive? Do you believe that comparing with competition is a good way to set Compensation Programs?
 - Yes, our plans are competitive.
 - We believe that comparisons are appropriate, however, we design our plans to support our specific needs and initiatives.
 - We look at what competitors are doing to remain aware of their practices.
4. Are Philip Morris pay practices similar around the world/similar across operating companies?
 - Yes, they are similar.
 - Philip Morris pay philosophy, which is to pay for performance, is uniform around the world and between operating companies.
 - Actual pay practices are tailored to meet business needs and will vary as it makes business sense to do so.

5. Do you feel Executive Compensation at Philip Morris is too high and if so, what do you plan to do about it?
- No, we don't; where pay is based on performance and tied to increasing shareholder equity.
 - In this regard, our historical performance has been very strong.
 - When you look at our results, we believe our executive pay practices are fair.
6. Even if justified in light of economy, layoffs, etc, don't you believe that Executives should lead by example in terms of absolute salary levels?
- I believe executives should lead by example and I hope we do.
 - In terms of compensation, we need to be able to attract and retain top quality managers.
 - Our pay philosophy is based on performance and is heavily tied to long-term results and increasing shareholder equity, which we feel is justified.
7. Does Philip Morris have any earnings caps for Senior Management. If no - why not?
- Yes, we do.
 - Each facet of compensation contains controls to keep pay practices in line with the market such as:
 - Maximums for salary ranges
 - 125% of pay maximum in the annual incentive award program
 - The only element without any caps are stock options and the value of these plans are directly tied to increasing shareholder value.
8. What is the relationship of your CEO salary to your typical individual's salary?
- 52:1 for Philip Morris
 - Typical industry ranges from 85:1 to 110:1
9. Why does Philip Morris have/use incentive programs at the executive level and for other managers?
- They are a key element of our compensation strategy.
 - Incentives can serve as an effective strategic management and communication tool.
 - Incentives represent an element of variable pay and in turn variable cost and if designed properly, will pay out in accordance with business results.
 - Incentives allow organizations to recognize and reward different levels of employee performance.
10. How much is spent annually on incentives and how does this compare to our competitors?
- Over the past three years the average amount spent on annual incentive was \$103.7million.
 - This amount translates in individual awards paid at the 75 percentile of our competitors

11. What proportion of Senior Management total pay comprises incentives and stock?
- 66% is in the form of Incentives and Stock.
 - 23% is Base Salary.
 - 11% covers benefits, perquisites, and profit sharing.
12. If business plans and objectives are not met, are bonuses paid out?
- No, they are not.
 - Generally, Philip Morris plans are closely linked to Philip Morris performance.
 - Management maintains the discretion to award payments based on qualitative data or extenuating circumstances.
 - Management maintains the discretion to eliminate payout due to extraordinary events.
13. How does the ownership position of our Executives compare to other companies?
- Ownership levels of our Executives ^{are} ~~is~~ generally lower.
14. Do European and Japanese Companies have stock option and LTI programs?
- In Europe they are used, however, it is less prevalent than in the US due to cultural differences.
 - In Japan, very few use due to very strict security laws.
15. How are stock option grants/eligibility determined, who determines, and how do they compare to other companies grant levels?
- The Compensation Committee, based on recommendations from Senior management, determines stock option grant eligibility; Senior management identifies key executives whose contributions can significantly impact business results.
 - We target to be in the top quartile of our competitors for grant values.
 - Philip Morris stock option grants are offered to fewer executives relative to the competition.
16. Why do you need and should shareholders permit the use of Restricted Stock? Isn't this just a guaranteed gift?
- No. It is not a guaranteed gift; people must satisfy the restricted element in order to qualify.
 - Company needs the use of this to remain competitive.
 - Used in hiring to replace significant items left behind.
 - Used to retain key executives and keep in place.
 - Used to address specific internal equity situations.
 - Stock is awarded with significant restrictions on sale and transfer.
 - Restricted stock has been used on a limited basis.

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17. What is Philip Morris' position on current legislation pertaining to compensation-related matters?
- We don't support legislation in this area.
 - Legislative mandates are not the best approach.
 - We believe in a free market system and believe that independent compensation committees and pay programs tied to performance are the best approach.
18. How will Philip Morris respond if the company has to take a charge to earnings on stock options?
- We are reviewing the situation and have not taken a position to date and would not want to speculate until we know what the impact is.
19. Why does Philip Morris need/have Golden Parachutes?
- To keep key executives in place in the event of a takeover so they can protect shareholder interest.
20. Why does Philip Morris also have a profit sharing plan?
- To share the superior results with all employees.
 - Provide a vehicle of estate building for all employees.
 - The Philip Morris profit sharing plan has been in existence since 1955.
 - It covers all hourly and salaried employees and provides an incentive to work toward meeting corporate objectives.
21. Who is on your compensation committee and are they independent (cross-booking Directors) How often do they meet?
- The following non-employee Directors comprise our compensation committee
 - Harold Brown
 - Paul Douglas
 - Rupert Murdoch
 - John Reed
 - Robert Huntley
 - Yes, they are independent.
22. Have you considered having an independent outside consultant to advise your compensation committee and if not, why not?
- No, we have not.
 - The compensation committee has not felt the need to do this.
 - We believe our current approach has worked exceedingly well and is best evidenced as:
 - Our compensation plans are very straightforward.
 - We do not use the more exotic forms of compensation which have received bad press.
 - Our performance and track record continues to support this approach.

23. Why is compensation committee's role relegated to only those few compensation plans?

- The role of the compensation committee is to approve the compensation arrangement for the corporation's Senior Management.
- Ensure the Senior Managers are not setting their own compensation levels and programs.
- Generally does not get involved in compensation for lower level employees as other internal controls are already in place.

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PHILIP MORRIS
1992 ANNUAL SHAREHOLDERS MEETING
COMPENSATION QUESTIONS & ANSWERS

PROXY QUESTIONS

1. Why change annual incentive funding formula?
 - Present Plan limitations were adopted in 1978.
 - Since then, the business has grown considerably.
 - Due to this growth, the board determined that current limitations are inadequate and decided to increase the amount that can be paid out annually to eligible employees.
 - Many companies operate without funding formula.
2. Why change bonus maximum from 100% to 125% of salary?
 - 13 individuals have I/C targets greater than 50%.
 - I/C Plan allows individuals to earn up to two times their I/C target for superior performance.
 - The maximum I/C award was increased to 125% to accommodate these 13 individuals who would not have otherwise been able to earn two times their I/C target.
3. Why include bonus in definition of pensionable compensation?
 - Pensions should be based on total annual pay.
 - For non-eligibles, it includes OT pay.
 - For incentive-eligible employees, it should include annual Incentive earnings but not Long-Term or Stock Compensation.
4. Why does Philip Morris use more than one long-term plan?
 - Competitive reasons.
 - Our approach is to have a balance in our compensation mix in order to retain/motivate executives in the business over the long term.
 - If you look at Philip Morris' mix and our historical use, they have been prudently used and any large numbers produced have been the result of shareholder value increasing.
5. How many people are in the Long-Term Performance Award Plan and what could be the total payout?
 - There are 316 Senior executives in the plan.
 - The target amount for 1990-1992 is \$79mm.

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6. Why do you have a one-year vesting period? If this is a long-term plan, why not five or seven years so you lock people in?
- It's a competitive practice.
 - Promotes employee stock ownership and creates a tie of rewards to results encouraging a long-term view.
 - Very little turnover in Philip Morris.
7. 37 million share authorization - why do you need so many shares?
- Looked internally over 5-year period at how many would be needed assuming reasonable competitive levels of grants.
 - Added shares to cover the possibility of a reasonable sized acquisition (Kraft, Suchard).
 - Looked at reasonable external competitive levels, discounting Philip Morris stock growth relative to competitors.
 - The result, a 37mm share authorization is conservative at 4% of shares outstanding.
 - Competitive norm is 5 - 10%.
8. Why has a limit been put on the number of restricted shares that can be issued under the plan?
- New guidelines developed by Investment and Advisory groups advocate limits.
 - Guidelines indicate 1 1/2% as reasonable cap.
 - Philip Morris has adopted position to use no more than 1% of authorized shares to prohibit dilution.
9. Why did you eliminate the Deferred Stock feature in the new Long-Term plan?
- The Deferred Stock Feature had never been used during term of plan by participants.
 - This feature is similar to restricted stock awards and would likely not be used in future.
10. Why did you delegate to the CEO the ability to grant stock options?
- In order to expedite employment offers for certain executives.
 - Should be noted that it cannot be done for any 16b executives.
 - This is reported to Compensation Committee on an "after the fact" basis.
11. Why do you need the ability to replace or re-price an option without additional shareholder approval? We don't have that luxury.
- We need to remain competitive.
 - Stock prices can fall due to general market, product liability, etc.
 - As prices drop, the compensation value decreases.
 - Gives Compensation Committee ability to reinstate value of options when it believes it is in the best interest of the company and its shareholders.

12. Why SARs and aren't they expensive to the company?
- SARs are expensive.
 - Philip Morris did not use them during the 1987 plan.
 - Opted to maintain SARs because SEC and FASB still discussing methods of accounting for stock options.
 - We are maintaining not adding this feature.
13. How often do you use Stock Appreciation Rights?
- SAR's were last used in 1981 and have not been used since.
14. Why do you need cashless exercise and doesn't this encourage executives not to hold stocks over long period?
- To facilitate the stock ownership of our executives.
 - Very little turnover, long service employees.
15. How often do you use restricted stock?
- Restricted stock was granted to 38 individuals in 1989.
 - It was given to KGF employees for retention and to Philip Morris employees whose accomplishments were instrumental in the acquisition and integration of food businesses.
 - Since 1989 restricted stock has only been provided to the chairman.
16. Why did you allow for a full-term exercise of options following a retirement?
- Provides flexibility to the committee to continue to use long-term incentives for Senior executives nearing retirement.
 - Decisions made by senior executives tend to be reflected in the company's performance for longer than current 3-year post retirement exercise period.
 - More companies are beginning to move in this direction.
17. Why did you change from 3 months to 12, the exercise period for options, following an involuntary termination?
- Provides the company with greater flexibility during severance discussions.
 - Helps avoid large cash payments as buy-out of stock options grants.
18. Why do we need to change the Director Compensation? Aren't they already paid enough?
- Changes to the Deferred Director Compensation Plan are not intended to raise Director compensation.
 - The change intended to align Directors with shareholders and treat them more like employees.
 - Allows Directors to defer retainers and fees in stock units rather than guaranteed interest rate.

19. What exactly is the rate the Directors have been receiving on their deferred retainers and fees? And for how long?
- Directors have received 12.2% interest rate on deferred retainers and fees over the past three years.
 - This is Philip Morris Incorporated's average interest rate.
20. Does the new Director plan for non-employee Directors make a seat on the Philip Morris Board more lucrative than those of other companies?
- No, not based on the annual retainers and benefits.
 - Total cash payments equal to average levels paid.
 - More lucrative only if stock price grows at the historical rates and the Director chooses to participate.
 - The principal change in the new Director plan is to allow for the deferral of retainers and fees in stock units.
 - This is intended to more closely align Directors' interests with shareholders.
21. Why was a cap put on the amount of shares a non-employee Director may receive each year?
- A cap was put on the number of shares in reaction to the growth of the stock.
22. Why give Directors 400 shares of stock in addition to retainers and fees?
- Mechanism designed to increase the ownership position of our Directors rather than provide only cash compensation to Directors.
 - It is important to align Directors' interests with those of shareholders.
23. Why give Directors retirement benefits?
- Rewards Board members for longer terms of service.
 - Acts as a retention vehicle.
24. What other benefits do you provide outside Directors?
- Outside Directors receive the following "benefits"
 - Reimbursement for business travel
 - Life Insurance
 - Outside Directors have access to the following on a contributory basis (pay 100% of premium)
 - Medical Insurance
 - Dental coverage
 - Pension
25. Why are the employment agreements set at 2.5 x salary bonus?
- 2.5 x Base Salary plus bonus replicates a fair level of severance for an executive who loses his job for involuntary reasons.

26. Regarding DIPA payments, why were they made and why so much?
- Established when Kraft was acquired in 1989 to replace employment contracts/Golden Parachutes.
 - They were put in place for key Kraft executives, to encourage them to stay rather than leave and collect their change in control payment.
 - The DIPA value is equal to the value of the Golden Parachutes.
27. Why are you paying excise taxes in addition to payouts?
- Paying excise taxes helps maintain an equitable level of severance.
 - If excise tax wasn't paid then each severance would need to be increased to approximate the fair value of the net severance.
28. What was Mr. Maxwell's compensation?
- Mr. Maxwell received a total of \$24 million comprised of the following:
 - \$ 1.7mm direct pay which was in line with peers.
 - \$13.9mm gains on stock options that had been awarded him in the late 1980's and also had gains on \$8.5mm restricted stock given him in 1989 and 1990.
 - He also received in January of 1991:
 - 500,000 stock options at a market price of \$54.94
 - 150,000 restricted shares which will vest in 1996 (valued at \$11.5mm on the day they were granted current value is estimated at \$9.6mm)
 - Compensation Committee determined this was appropriate by comparing Philip Morris performance during his chairmanship (40% annually compounded return to shareholders) to the growth achieved and subsequent pay package granted to previous CEO's as well as external CEO's
 - Compound sales growth 24.7%
 - Compound EPS growth 23.1%
 - Compound TSR 40.0% *June 30 '84 - Aug. 31 '91*
 - Average ROE 27.5%
 - Average ROC 17.8%
 - Capitalized value 1984, \$8.4 billion; 1990, \$68.8 billion.
29. Why does Mike Miles have an agreement specifically related to termination benefits?
- When the KGF Golden Parachutes were eliminated, it was agreed that all KGF employees, in the event they were involuntarily terminated, would be eligible for a severance arrangement.
 - Severance arrangements were very much in use on a competitive basis with competitive practice.

30. Why did G. Bible get retirement benefits from the Supplemental Retirement Benefit Plan?

- When G. Bible was transferred from Philip Morris to KGF he became eligible for supplemental benefits to "keep him whole."
- Supplemental benefits will cover the difference between what he would receive if he were still at Philip Morris and what he is currently eligible for at KGF

2022852793

PHILIP MORRIS
1992 ANNUAL SHAREHOLDERS MEETING

COMPENSATION QUESTION & ANSWERS

*Please see new
version on top*

GENERAL QUESTIONS

1. What is Philip Morris Compensation Philosophy?
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 - Yes, our plans are competitive.
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 - We look at what competitors are doing to remain aware of their practices.
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5. Do you feel Executive Compensation at Philip Morris is too high and if so, what do you plan to do about it?
- No, we don't; where pay is based on performance and tied to increasing shareholder equity.
 - In this regard, our historical performance has been very strong.
 - When you look at our results, we believe our executive pay practices are fair.
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- No. It is not a guaranteed gift; people must satisfy the restricted element in order to qualify.
 - Company needs the use of this to remain competitive.
 - Used in hiring to replace significant items left behind.
 - Used to retain key executives and keep in place.
 - Used to address specific internal equity situations.
 - Stock is awarded with significant restrictions on sale and transfer.
 - Restricted stock has been used on a limited basis.

17. What is Philip Morris' position on current legislation pertaining to shareholder voting on compensation-related matters?
- We don't support legislation in this area.
 - Legislative mandates are not the best approach.
 - We believe in a free market system and believe that independent compensation committees and pay programs tied to performance are the best approach.
18. How will Philip Morris respond if the company has to take a charge to earnings on stock options?
- We are reviewing the situation and have not taken a position to date and would not want to speculate until we know what the impact is.
19. Why does Philip Morris need/have Golden Parachutes?
- To keep key executives in place in the event of a takeover so they can protect shareholder interest.
20. Why does Philip Morris also have a profit sharing plan?
- To share the superior results with all employees.
 - Provide a vehicle of estate building for all employees.
 - The Philip Morris profit sharing plan has been in existence since 1955.
 - It covers all hourly and salaried employees and provides an incentive to work toward meeting corporate objectives.
21. Who is on your compensation committee and are they independent (cross-booking Directors) How often do they meet?
- The following non-employee Directors comprise our compensation committee
 - Harold Brown
 - Paul Douglas
 - Rupert Murdoch
 - John Reed
 - Robert Huntley
 - Yes, they are independent.
- How many meetings*
22. Have you considered having an independent outside consultant to advise your compensation committee and if not, why not?
- No, we have not.
 - The compensation committee has not felt the need to do this.
 - We believe our current approach has worked exceedingly well and is best evidenced as:
 - Our compensation plans are very straightforward.
 - We do not use the more exotic forms of compensation which have received bad press.
 - Our performance and track record continues to support this approach.

23. Why is compensation committee's role relegated to only those few compensation plans?

- The role of the compensation committee is to approve the compensation arrangement for the corporation's Senior Management.
- Ensure the Senior Managers are not setting their own compensation levels and programs.
- Generally does not get involved in compensation for lower level employees as other internal controls are already in place.

PHILIP MORRIS
1992 ANNUAL SHAREHOLDERS MEETING
COMPENSATION QUESTIONS & ANSWERS

PROXY QUESTIONS

1. Why change annual incentive funding formula?
 - Present Plan limitations were adopted in 1978.
 - Since then, the business has grown considerably.
 - Due to this growth, the board determined that current limitations are inadequate and decided to increase the amount that can be paid out annually to eligible employees.
 - Many companies operate without funding formula.
2. Why change bonus from 100% to 125% of salary?
 - 13 individuals have I/C targets greater than 50%.
 - I/C Plan allows individuals to earn up to two times their I/C target for superior performance.
 - The maximum I/C award was increased to 125% to accommodate these 13 individuals who would not have otherwise been able to earn two times their I/C target.
3. Why include bonus in definition of pensionable compensation?
 - Pensions should be based on total annual pay.
 - For non-eligibles, it includes OT pay.
 - For incentive-eligible employees, it should include annual Incentive earnings but not Long-Term or Stock Compensation.
4. Why does Philip Morris use more than one long-term plan?
 - Competitive reasons.
 - Our approach is to have a balance in our compensation mix in order to retain/motivate executives in the business over the long term.
 - If you look at Philip Morris' mix and our historical use, they have been prudently used and any large numbers produced have been the result of shareholder value increasing.
5. How many people are in the Long-Term Performance Award Plan and what could be the total payout?
 - There are 316 Senior executives in the plan.
 - The target amount is \$79mm.

6. Why do you have a one-year vesting period? If this is a long-term plan, why not five or seven years so you lock people in?
- It's a competitive practice.
 - Promotes employee stock ownership and creates a tie of rewards to results encouraging a long-term view.
 - Very little turnover in Philip Morris.
7. 37 million share authorization - why do you need so many shares?
- Looked internally over 5-year period at how many would be needed assuming reasonable competitive levels of grants.
 - Added shares to cover the possibility of a reasonable sized acquisition (Kraft, Suchard).
 - Looked at reasonable external competitive levels, discounting Philip Morris stock growth relative to competitors.
 - The result, a 37mm share authorization is conservative at 4% of shares outstanding.
 - Competitive norm is 5 - 10%.
8. Why has a limit been put on the number of restricted shares that can be issued under the plan?
- New guidelines developed by Investment and Advisory groups advocate limits.
 - Guidelines indicate 1 1/2% as reasonable cap.
 - Philip Morris has adopted position to use no more than 1% of authorized shares to prohibit dilution.
9. Why did you eliminate the Deferred Stock feature in the new Long-Term plan?
- The Deferred Stock Feature had never been used during term of plan by participants.
 - This feature is similar to restricted stock awards and would likely not be used in future.
10. Why did you delegate to the CEO the ability to grant stock options?
- In order to expedite employment offers for certain executives.
 - Should be noted that it cannot be done for any 16b executives.
 - This is reported to Compensation Committee on an "after the fact" basis.
11. Why do you need the ability to replace or re-price an option without shareholder approval? We don't have that luxury.
- We need to remain competitive.
 - Stock prices can fall due to general market, product liability, etc.
 - As prices drop, the compensation value decreases.
 - Gives Compensation Committee ability to reinstate value of options when it believes it is in the best interest of the company and its shareholders.

12. Why SARs and aren't they expensive to the company?
- SARs are expensive.
 - Philip Morris did not use them during the 1987 plan.
 - Opted to maintain SARs because FCC and FASB still discussing methods of accounting for stock options.
 - We are maintaining not adding this feature.
13. How often do you use Stock Appreciation Rights?
- SAR's were last used in 1981 and have not been used since.
14. Why do you need cashless exercise and doesn't this encourage executives not to hold stocks over long period?
- To facilitate the stock ownership of our executives.
 - Very little turnover, long service employees.
15. How often do you use restricted stock?
- Restricted stock was granted to 38 individuals in 1989.
 - It was given to KGF employees for retention and to Philip Morris employees whose accomplishments were instrumental in the acquisition and integration of food businesses.
 - Since 1989 restricted stock has only been provided to the chairman.
16. Why did you allow for a full-term exercise of options following a retirement?
- Provides flexibility to the committee to continue to use long-term incentives for Senior executives nearing retirement.
 - Decisions made by senior executives tend to be reflected in the company's performance for longer than current 3-year post retirement exercise period.
 - More companies are beginning to move in this direction.
17. Why did you change from 3 months to 12, the exercise period for options, following an involuntary termination?
- Provides the company with greater flexibility during severance discussions.
 - Helps avoid large cash payments as buy-out of stock options grants.
18. Why do we need to change the Director Compensation? Aren't they already paid enough?
- Changes to the Deferred Director Compensation Plan are not intended to raise Director compensation.
 - The change intended to align Directors with shareholders and treat them more like employees.
 - Allows Directors to defer retainers and fees in stock units rather than guaranteed interest rate.

19. What exactly is the rate the Directors have been receiving on their deferred retainers and fees? And for how long?
- Directors have received 12.2% interest rate on deferred retainers and fees over the past three years.
 - This is Philip Morris Incorporated's average interest rate.
20. Does the new Director plan for non-employee Directors make a seat on the Philip Morris Board more lucrative than those of other companies?
- No, not based on the annual retainers and benefits.
 - Total cash payments equal to average levels paid.
 - More lucrative only if stock price grows at the historical rates and the Director chooses to participate.
 - The principal change in the new Director plan is to allow for the deferral of retainers and fees in stock units.
 - This is intended to more closely align Directors' interests with shareholders.
21. Why was a cap put on the amount of shares a non-employee Director may receive each year?
- A cap was put on the number of shares in reaction to the growth of the stock.
22. Why give Directors 400 shares of stock in addition to retainers and fees?
- Mechanism designed to increase the ownership position of our Directors rather than provide only cash compensation to Directors.
 - It is important to align Directors' interests with those of shareholders.
23. Why give Directors retirement benefits?
- Rewards Board members for longer terms of service.
 - Acts as a retention vehicle.
24. What other benefits do you provide outside Directors?
- Outside Directors receive the following "benefits"
 - Reimbursement for business travel
 - Life Insurance
 - Outside Directors have access to the following on a contributory basis (pay 100% of premium)
 - Medical Insurance
 - Dental coverage
 - Pension
25. Why are the employment agreements set at 2.5 x salary bonus?
- 2.5 x Base Salary plus bonus replicates a fair level of severance for an executive who loses his job for involuntary reasons.

26. Regarding DIPA payments, why were they made and why so much?

- Established when Kraft was acquired in 1989 to replace employment contracts/Golden Parachutes. *they have stepped*
- They were put in place for key Kraft executives, to encourage them to stay rather than leave and collect their change in control payment.
- The DIPA value is equal to the value of the Golden Parachutes.

27. Why are you paying excise taxes in addition to payouts?

- Paying excise taxes helps maintain an equitable level of severance.
- If excise tax wasn't paid then each severance would need to be increased to approximate the fair value of the net severance.

28. What was Mr. Maxwell's compensation?

- Mr. Maxwell received a total of \$24 million comprised of the following:
 - \$ 1.7mm direct pay which was in line with peers.
 - \$13.9mm gains on stock options that had been awarded him in the late 1980's and also had gains on \$8.5mm restricted stock given him in 1989 and 1990.
- He also received in January of 1991:
 - 500,000 stock options at an market price of \$54.94
 - 150,000 restricted shares which will vest in 1996 (valued at \$11.5mm on the day they were granted current value is estimated at \$9.6mm)
- Compensation Committee determined this was appropriate by comparing Philip Morris performance during his chairmanship (40% annually compounded return to shareholders) to the growth achieved and subsequent pay package granted to previous CEO's as well as external CEO's
- Compound sales growth 24.7%
- Compound EPS growth 23.1%
- Compound TSR 27.4%
- Average ROE 27.5%
- Average ROC 17.8%
- Capitalized value 1984, \$8.4 billion; 1990, \$68.8 billion.

29. Why does Mike Miles have an agreement specifically related to termination benefits?

- When the KGF Golden Parachutes were eliminated, it was agreed that all KGF employees, in the event they were involuntarily terminated, would be eligible for a severance arrangement.
- Severance arrangements were very much in use on a competitive basis with competitive practice.

30. Why did G. Bible get retirement benefits from the Supplemental Retirement Benefit Plan?
- When G. Bible was transferred from Philip Morris to KGF he became eligible for supplemental benefits to "keep him whole."
 - Supplemental benefits will cover the difference between what he would receive if he were still at Philip Morris and what he is currently eligible for at KGF

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B. COMPENSATION, EXECUTIVE

1. In this recession period, don't you think that you and the other officers should take less compensation?

- Executive compensation is tied in with the performance of the Company. During the past year, shareholder equity has increased substantially
- In order to attract and retain high level performers, our rates of compensation must be competitive with those prevailing in the market place

2. Mr. Miles, would you like to tell us just how much you make a year?

- You can find the information for 1991 in the Proxy Statement. No major changes for 1992 are anticipated - I hope!

See standby statement immediately following

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Standby Statement on Executive Compensation

This is in response to articles in *USA Today* of March 27 and *The Wall Street Journal* of March 30, 1991

Philip Morris has operated under the principle that company performance comes first and rewards will then follow. This principle is demonstrated through the compensation reported in the 1992 proxy statement for Hamish Maxwell over the last three years (Exhibit A).

Hamish's 1991 Direct Pay consisted of the following:

Base salary	\$ 800,000
Annual Bonus	\$ 800,000
Deferred Profit Sharing	<u>\$ 140,769</u>
	\$1,740,769

Both the base salary and annual bonus are equal to median levels paid by comparable companies.

The balance of the compensation received by Hamish in 1991 is the result of gains in both Stock Option grant exercises (\$13.9 Million) and vesting of restricted stock (\$8.5 Million). Both the Stock Option and the restricted stock awards were grants to Hamish in prior years (1986, 1987 & 1988).

For 1990, \$4.3 Million was reported as compensation. Of the \$4.3 Million, \$1.4 Million (30%) was cash compensation. The balance of Hamish's compensation was from gains recognized through exercised stock option grants awarded in 1985.

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Hamish's 1989 reported compensation was \$5.6 Million. Of this amount \$1.0 Million was cash bonus compensation for the 1989 calendar year as reported in the 1992 proxy. The remaining \$4.6 Million was compensation from a three year long-term cash award and gains from the exercise of a 1984 stock option grant.

Reiterating the principle of performance, of the \$34 Million of Hamish Maxwell's compensation reported for the period 1989-1991, \$28 Million or 83% was directly linked to shareholder wealth creation. This gain would not have been realized had the company not performed. For the period of Mr. Maxwell's chairmanship, July 1984 through August 1991, Philip Morris total return to shareholders grew at a compound annual rate of 40.0%, again in excess of the 18.8% compounded growth rate of the S&P index over the same period. Moreover, had our stock price not increased, the stock options and other performance stock awarded to our executives would have been worthless.

A comparison of performance and growth during Hamish's tenure as Chairman and CEO demonstrates the performance.

	<u>1984 - 1990</u>
Company Sales Growth	24.7%
Corporate EPS Growth	23.1%
Average ROE	27.4%
Market Capitalization	\$8.4 Billion to \$68.8 Billion

We believe Mr. Maxwell's base salary and annual bonuses are in line with other companies of similar size on any comparative basis, and that income generated by stock option gains or other long term incentive payments were directly tied to the outstanding results of the company as indicated above.

EXHIBIT A

COMPENSATION REPORTED IN 1992 PROXY

HAMISH MAXWELL

1991 \$ 1,740,769 Direct Pay
 \$13,900,000 Stock Option Gains ('86, '87 & '88 Grants)
 \$ 8,500,000 Restricted Stock Vesting

 \$24,140,769

1990 \$ 2,900,000 Stock Option Gains ('85 Grant)
 \$ 1,200,000 Annual Incentive
 \$ 157,500 Deferred Profit Sharing

 \$ 4,257,500

1989 \$ 1,771,000 Long-Term Incentive
 \$ 2,800,000 Stock Option Gains ('84 Grant)
 \$ 900,000 Annual Incentive
 \$ 127,376 Deferred Profit Sharing

 \$ 5,598,376

TOTAL: \$33,996,645

 \$11,500,000 Restricted Stock Release 1996
 =====

\$45,496,645

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C. CONTRIBUTIONS

Philanthropic Contributions

1. What were our philanthropic contributions in 1991?
 - The Company contributed \$50 million in 1991
2. What percentage of income does that represent?
 - It represents 1.083% of domestic pre-tax income and 0.718% of worldwide pre-tax income
3. Does the Company make contributions to organizations that do not directly further the direct business interests of the Company?
 - Our objective is to show awareness that our company is part of a larger community
 - We build upon our business relationships, provide incentive for talented and creative individuals to become employees, and help improve the environment around us, thereby affecting directly the business interests of the Company
4. Were contributions made in 1991 to organizations with which members of the Board of Directors are affiliated?
 - Yes. See attached list (pages 2-8)

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Retirement Date	Director	Other Directorships
1992	H. Maxwell Chairman & CEO Philip Morris Companies Inc. Training/Experience marketing	Bankers Trust Company Bankers Trust New York Corporation American European Community Association - \$250,000 American Friends of Cambridge University Brooklyn Academy of Music - \$160,320 The Business Council The Conference Board The Dole Foundation - \$18,750 (Member of Pacesetters Committee) Foreign Policy Association - \$80,000 Institute for Advanced Study Keep America Beautiful, Inc. - \$5,000 (Executive Committee Member) New York City Partnership, Inc. - \$62,500 (Board Member) New York Public Library - \$100,000 (Honorary Trustee) NY Society for International Affairs, Inc.- \$80,000

Retirement Date	Director	Other Directorships
1994	J. A. Cordido-Freytes, PhD Member Betancourt, Cordido & Associates President C.A. Tabacalera Nacional Training/Experience law, education	None

Retirement Date	Director	Other Directorships
1994	T. J. Moore, Jr. Counsel Hunton & Williams Attorneys-at-Law (Formerly: Chairman & CEO Dominion Resources, Inc., now retired)	Dominion Resources, Inc. Central Fidelity Banks, Inc. GTE Corporation Virginia Foundation for Independent Colleges (trustee) - \$175,000 Colonial Williamsburg Foundation (trustee) Richmond Renaissance Incorporated - \$50,000
	Training/Experience law, utilities	

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Retirement Date	Director	Other Directorships
1995	P. W. Douglas Retired Chairman & CEO The Pittston Company Training/Experience economics, finance	Phelps-Dodge Corporation United States Trust Corporation & United States Trust Co. of NY New York Life Insurance Company George C. Marshall Foundation (trustee) St. Lukes Roosevelt Hospital (trustee) International Center for the Disabled (trustee) - \$10,000

Retirement Date	Director	Other Directorships
1996	H. Brown, PhD Chairman Foreign Policy Institute The Johns Hopkins University School of Advanced International Studies (Formerly: U.S. Secretary of Defense General Partner, Warburg, Pincus & Company) Training/Experience physics, university administration, military research, government	AMAX, Inc CBS, Inc. IBM Corporation Cummins Engine Co., Inc. Mattel Inc. Rand Corporation (trustee) California Institute of Technology (trustee) Council on Foreign Relations - \$5,000

Retirement Date	Director	Other Directorships
1996	J. M. Richman Counsel Wachtell, Lipton, Rosen & Katz Attorneys-at-law (Formerly: Chairman and CEO Kraft General Foods Training/Experience law, food manufacturing, marketing	Continental Bank Corporation Continental Bank N.A. R.R. Donnelley & Sons Company USX Corporation Evanston Hospital Corporation Northwestern University (trustee) The Johnson Foundation

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Retirement

Date Director Other Directorships

1997	H. G. Storr Executive Vice President & Chief Financial Officer Philip Morris Companies Inc. Chairman & CEO Philip Morris Credit Corporation	Chemical Bank (Advisory Board) Klingelberg Corporation International Tennis Hall of Fame - \$18,500 (Director & Treasurer)
	Training/Experience finance, accounting	

Retirement

Date Director Other Directorships

1998	R. E. R. Huntley Counsel Hunton & Williams (Formerly: President, Washington and Lee University Dean of Law School, Washington and Lee University)	Centel Corp. Union Theological Seminary (Member, Board of Trustees) Virginia Foundation for Independent Colleges (trustee) - \$175,000 Virginia Historical Society (trustee) Richmond Renaissance - \$50,000
	Training/Experience law, education, catalog sales	

Retirement

Date Director Other Directorships

2000	M. H. Bring Senior Vice President & General Counsel Philip Morris Companies Inc. (Formerly: Senior Partner Arnold & Porter)	New York Law Center Foundation \$500,000 The Legal Aid Society - \$10,875 Whitney Museum of American Art (trustee) - \$110,920
	Training/Experience law, government	

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<u>Retirement Date</u>	<u>Director</u>	<u>Other Directorships</u>
2000	W. H. Donaldson Chairman New York Stock Exchange (Formerly: Dean of the Graduate School of Management of Yale University William S. Beinecke Professor in Management Studies Counsel to the Vice President of the United States U.S. Undersecretary of State Co-Founder, Chairman and CEO Donaldson, Lufkin & Jenrette, Inc.)	Aetna Life & Casualty Co. Honeywell, Inc. Carnegie Endowment for World Peace Lincoln Center for the Performing Arts, Inc. - \$450,920 Council on Foreign Relations - \$5,000 New York Community Trust St. Lawrence University (trustee) - \$1,000 Marine Corps Command & Staff College (trustee) National Executive Service Corps - \$5,000
	Training/Experience finance, education, management, government	

<u>Retirement Date</u>	<u>Director</u>	<u>Other Directorships</u>
2000	K. R. Murdoch Chairman & CEO The News Corporation Limited	None
	Training/Experience publishing, motion pictures, television	

<u>Retirement Date</u>	<u>Director</u>	<u>Other Directorships</u>
2001	R. W. Murray President and COO Philip Morris Companies Inc.	Alvin Ailey American Dance Theater - \$280,920 International Tennis Hall of Fame - \$18,500 American Museum of Natural History - \$920 (trustee) Council for the United States and Italy - \$25,920 Polytechnic University (trustee)
	Training/Experience finance, accounting, marketing	

2022852814

Retirement Date	Director	Other Directorships
2004	M. A. Miles Chairman & CEO Philip Morris Companies Inc. Training/Experience advertising, marketing, fast food	The Lyric Opera of Chicago National Multiple Sclerosis Society - \$111,920 Junior Achievement of Chicago - \$60,000 J.L. Kellogg Graduate School of Management Advisory Council, Northwestern University Business Committee for the Arts, Inc. - \$5,000 The Business Council The Business Roundtable The Chicago Council on Foreign Relations Grocery Manufacturers of America, Inc. New York Chamber of Commerce and Industry New York City Partnership Inc. - \$62,500

Retirement Date	Director	Other Directorships
2007	E. E. Bailey, PhD John C. Howard Professor of Public Policy & Management The Wharton School of the University of Pennsylvania (Formerly: Dean, Graduate School of Industrial Administration, Carnegie-Mellon University; Vice-Chairman, Civil Aeronautics Board) Training/Experience economics, research, teaching	College Retirement Equities Fund CSX Corporation Honeywell Inc. National Westminster Bancorp Inc. Brookings Institution

Retirement Date	Director	Other Directorships
2008	J. S. Reed Chairman Citicorp and Citibank, N.A. Training/Experience engineering, finance	Monsanto Co. Americas Society - \$25,000 Corporation of MIT (member) Memorial Sloan-Kettering Cancer Center (Board of Managers) National Bureau of Economic Research, Inc. - \$10,000 (trustee) Rand Corporation Russell Sage Foundation (trustee) Spencer Foundation Center for the Advanced Study in Behavioral Sciences

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